ANNUAL REPORT 2017

Year Ended March 31, 2017

Spirit of Challenge 70th KYOEI STEEL 1947-2017

Playing a Primary Role in Steel Resource Recycling

KYOEI STEEL

Management Principle

SPIRIT OF CHALLENGE

At the Kyoei Steel Group, we strive to become a corporate group in harmony with society through recycling operations that focus on the steel business and that contribute to the development of the national economy and local communities.

Action Guidelines

- We act with fairness and integrity in accordance with high ethical standards.
- We cultivate a corporate culture imbued with a spirit of enterprise and innovation, eager to embrace challenges, and enthusiastically committed to the accomplishment of ambitious goals.
- We are practical and realistic.
- We aspire to be a company where people and technologies are valued, and where work is a source of pride and satisfaction.

CONTENTS

Forward-Looking Statements: Projections of operating results and changes in the business environment provided in this report are based on information available to the management as of the date the report was prepared. As such, these projections are exposed to uncertainties and potential risks that may affect the projections, should they materialize. Readers are therefore cautioned that actual operating results and the business environment in the future may differ materially from the projections provided herein.

BUSINESS SEGMENTS

Domestic Steel Business

The steel business, which melts steel scrap in electric arc furnaces, transforming it into new steel products, is the core business of Kyoei Steel. The Company provides a stable supply of high-quality steel products by using its technological capabilities nurtured for more than half a century. Our mainstay product, concrete reinforcing bar (including threaded rebar), accounts for 80% of production volume.

Overseas Steel Business

Kyoei Steel is developing overseas business in Vietnam and the United States. We have two bases in Vietnam: Vina Kyoei Steel Co., Ltd. (VKS) in southern Vietnam and Kyoei Steel Vietnam Company Limited (KSVC) in the north. We are responding to increasing demand for steel in Vietnam as the economy grows. In the United States, we acquired Vinton Steel LLC in December 2016. Leveraging the experience we have gained in the US market over the past two fiscal years, we will use Vinton Steel as a bridgehead to expand our steel business in that country.

Material Recycling Business

Kyoei Steel became the first Japanese minimill steel company to succeed in melting and detoxifying potentially infectious medical and industrial waste, using the heat from electric arc furnaces that reach thousands of degrees Celsius. We have been developing it as a business since then for more than 25 years. Our MESSCUD System for completely detoxifying and melting medical waste is an integrated collection, transport and disposal method developed nationwide.

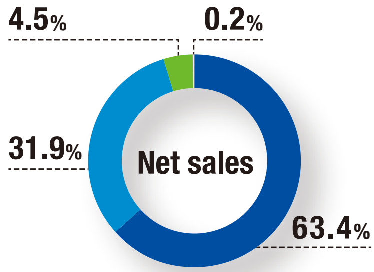
FY2017

Domestic Steel Business

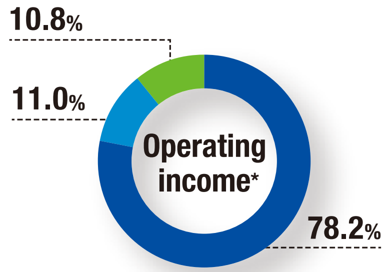
Overseas Steel Business

Material Recycling Business

Other Business



¥145,991 million

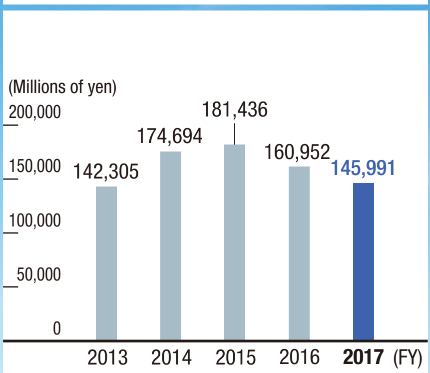


¥7,971 million

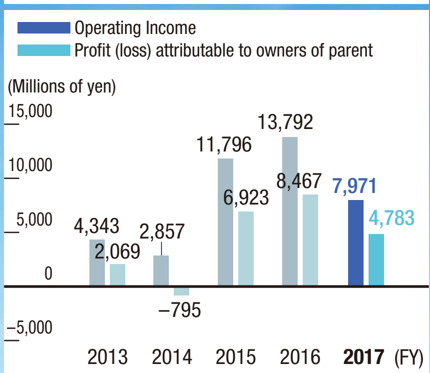
*Before the elimination of inter-segment transactions

FINANCIAL HIGHLIGHTS

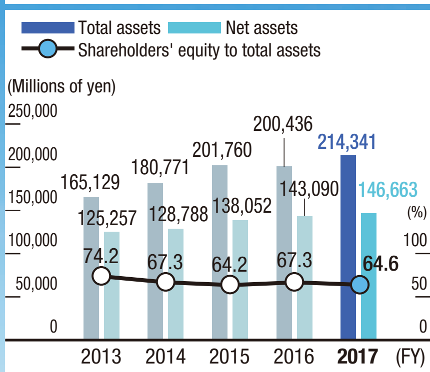
Net Sales



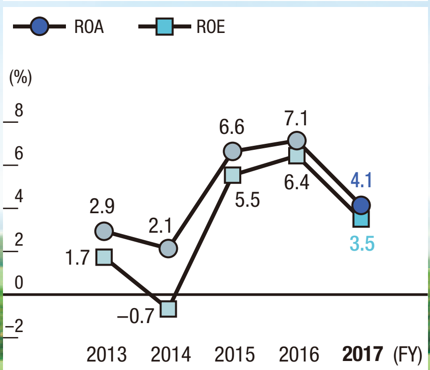
Operating income &
Profit (loss) attributable to owners of parent



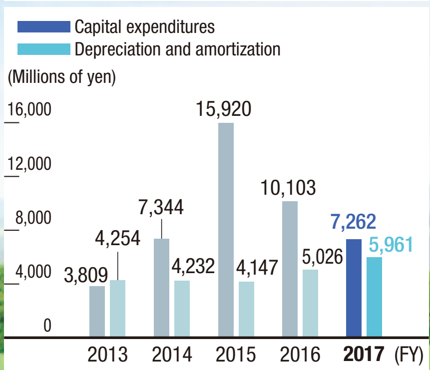
Total assets & Net assets &
Shareholders' equity to total assets



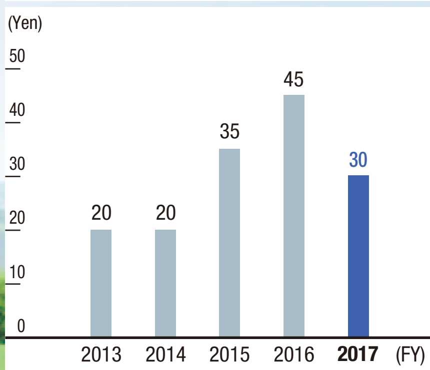
ROA & ROE



Capital expenditures &
Depreciation and amortization



Cash dividends applicable to the year



Kyoei Steel contributing to the building of a recycling-oriented society

Strengths of Kyoei Steel

No. 1 market share of steel rebar in Japan

The Company has the leading market share in Japan for rebar, which is indispensable for construction and civil engineering, especially high-rise buildings and condominiums, roads and other social infrastructure.

Operating production and sales bases in every major demand region in Japan

The Kyoei Steel Group is the only steel minimill company with production and sales bases in Kanto, Chubu, Kansai and Kyushu; with these regions accounting for 70% of the rebar market.

Material recycling business with steel mills

The material recycling business shares facilities with our steel business, contributing to high margins and stable profit that boosts Group performance.

Aiming for growth through a tri-polar structure: Japan, Vietnam and the United States

By acquiring a mill in the United States in 2016, we created a tri-polar structure, spanning Japan, Vietnam and the United States. By developing our business in different countries—Japan, our mainstay market; Vietnam, which continues to develop; and the United States, an advanced country—we intend to achieve stable growth.

COMPANY OUTLINE

Established	August 21, 1947
Head Office	1-4-16 Dojimahama, Kita-ku, Osaka 530-0004 Japan
Capital	¥18,516 million
Employees	2,341 (as of March 31, 2017)

Production and Sales Bases

Steel Business

Material Recycling Business

Kyoei Steel's Metal Recycling System

Aiming for Further Growth as We a 100-Year Company

KYOEI STEEL was established in 1947, shortly after World War II, by Hideji Takashima in Furuichi in Osaka's Joto Ward. In the ensuing 70 years, the Company faced numerous challenges, including the economic stagnation caused by oil shocks and increasingly severe global competition. Throughout, in keeping with our management principle the Spirit of Challenge, we have grown while taking on repeated challenges as we fostered innovation in electric arc furnace technology, developed overseas operations and made structural improvements in the electric arc furnace industry. We look forward to continuing to meet every challenge as we aim at becoming a 100-year company. We will do this based on our growth strategies: to prevail in the domestic steel market, promote the overseas steel business and expand the material recycling business.

1947 Kyoei Iron Ltd. is established.

1948 Company name is changed to Kyoei Steel Ltd.

1962 Company establishes its first electric arc furnace mill in Osaka (Tsukuda Mill) and begins operating.

1963 Tsukuda Mill branches off and becomes Kyoei Iron & Steel Ltd.

1971 A new electric arc furnace mill is established in Hirakata City, Osaka.

1972 A new rolling mill is established in Hirakata City, creating an integrated system of steelmaking and rolling (now the Hirakata Division).
Yamaguchi Kogyo Ltd. is established (name changed the following year to Yamaguchi Kyoei Industries Ltd.).
Kumamoto Kyoei Industries Ltd. (now the Nishi-Nippon Kumamoto Works of Osaka Steel Co., Ltd.) is established in Uto City, Kumamoto Prefecture, to produce and sell rebar and merchant bar.

1973 Auburn Steel Company Inc. is established in the US state of New York.

1975 The steelmaking mill at Auburn Steel is completed, and production commences.

1979 Management rights of Auburn Steel are transferred.
Management rights of Kumamoto Kyoei Industries are transferred.

1982 A capital tie-up is formed with Sumitomo Metal Industries, Ltd.,(now NIPPON STEEL & SUMITOMO METAL CORPORATION) increasing capital to ¥100 million.

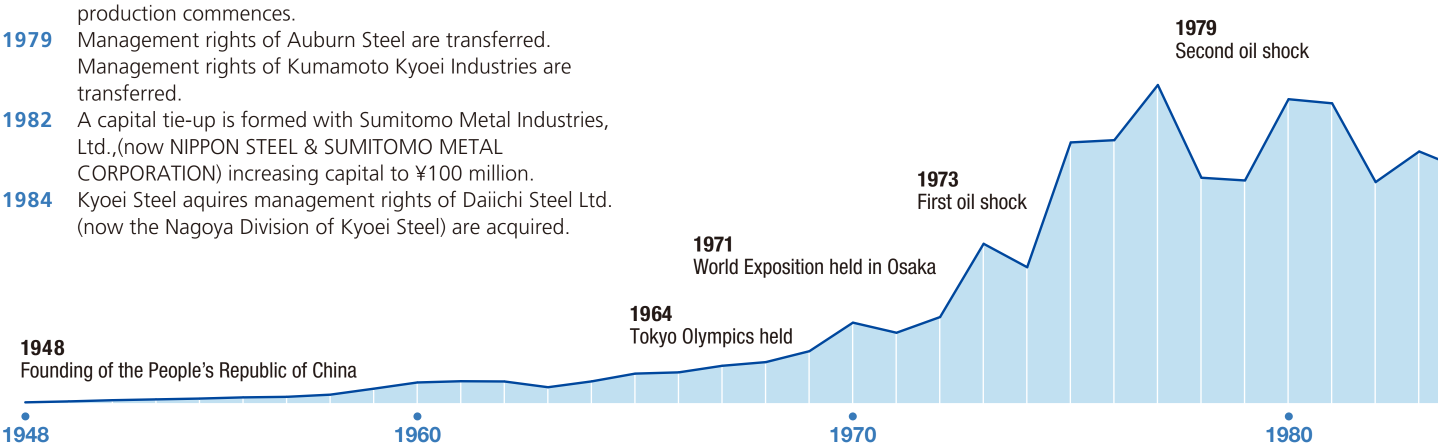
1984 Kyoei Steel aquires management rights of Daiichi Steel Ltd. (now the Nagoya Division of Kyoei Steel) are acquired.

1988 Yamaguchi Kyoei Industries begins MESSCUD business (disposal of medical waste using electric arc furnaces).
Wakayama Kyoei Steel Ltd. (now Nippon Steel & Sumikin Shapes Corporation) is established to expand into the field of "junior" H-beams.

1990 Kyoei Steel, Kyoei Iron & Steel, Yamaguchi Kyoei Industries, Daiichi Steel and Wakayama Kyoei Steel merge and operate as Kyoei Steel. Kyoei Iron & Steel, Yamaguchi Kyoei Industries, Daiichi Steel and Wakayama Kyoei Steel are reorganized and become the Osaka Division, Yamaguchi Division, Nagoya Division and Wakayama Division, respectively. As a result of the merger, capital is increased to ¥140 million.

1991 Kyoei Iron (now Nippon Steel & Sumikin Shapes Corporation) is established.
Business rights of the Wakayama Division are transferred to Kyoei Iron.

1992 Kyoei Steel acquires management rights of US-based Florida Steel (name later changed to Ameristeel, Inc.) to expand business in North America.




Founder
Hideji Takashima


1972
A new steelmaking and rolling mill established in Hirakata City


1972
Yamaguchi Kyoei Industries Ltd. is established.

Look toward Becoming

1994 Vina Kyoei Steel Ltd. (VKS) is established in southern Vietnam.
Kanto Steel Ltd. is established. The company starts operations with production facilities inherited from Aiba Steel Company's Niihari Mill.

1996 Vina-Japan Engineering Ltd. (a foundry) is established in Vietnam.

1999 Management rights of Ameristeel are transferred to Gerdau S.A. of Brazil.

2002 Kyoei Steel becomes one of the two largest shareholders of Nakayama Steel Products Co., Ltd. along side Godo Steel, Ltd.

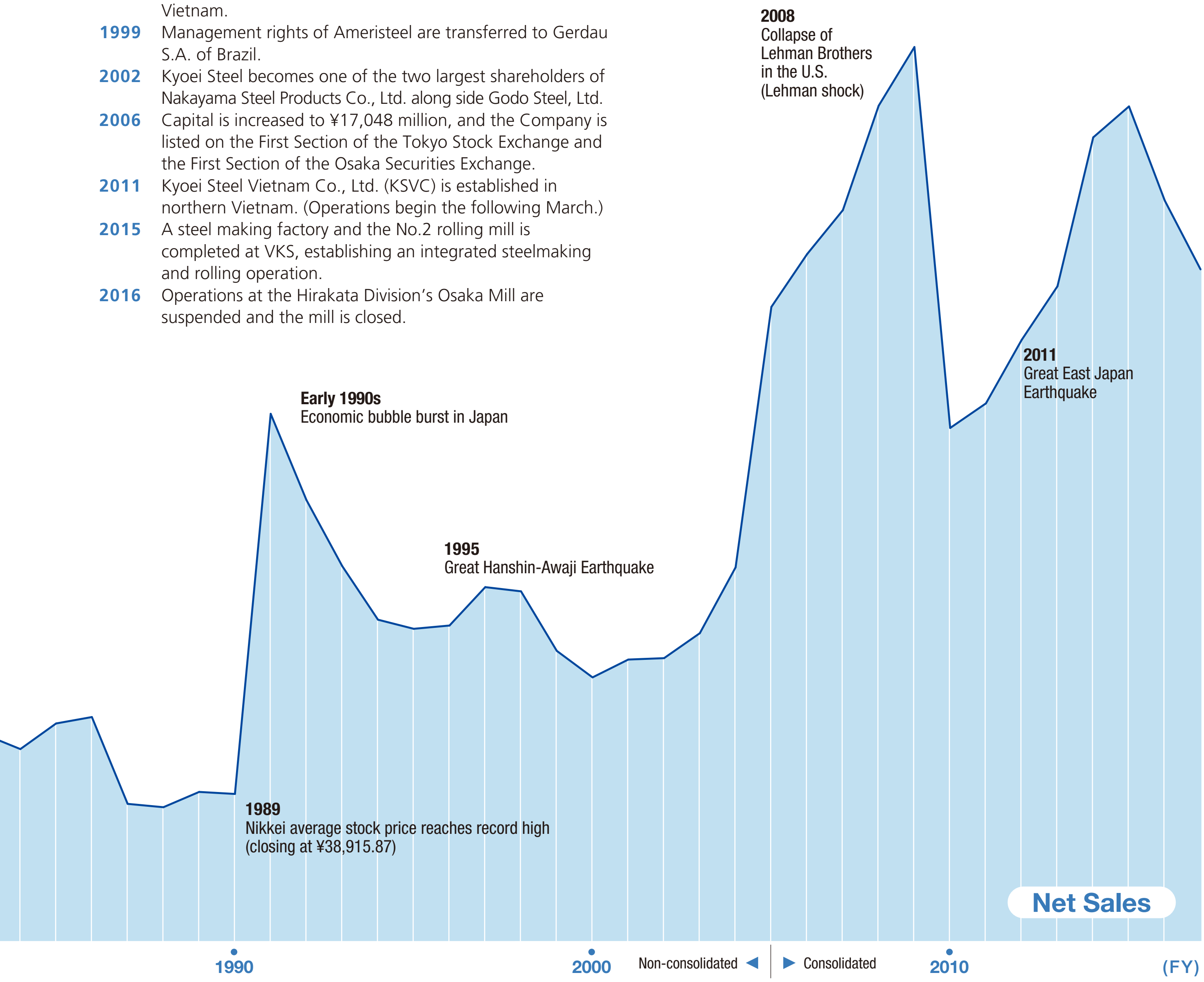
2006 Capital is increased to ¥17,048 million, and the Company is listed on the First Section of the Tokyo Stock Exchange and the First Section of the Osaka Securities Exchange.

2011 Kyoei Steel Vietnam Co., Ltd. (KSVC) is established in northern Vietnam. (Operations begin the following March.)

2015 A steel making factory and the No.2 rolling mill is completed at VKS, establishing an integrated steelmaking and rolling operation.

2016 Operations at the Hirakata Division's Osaka Mill are suspended and the mill is closed.

2016 The material recycling business undergoes organizational restructuring within the Group. (Kyoei Industrial's recycling department is transferred to Kyoei Steel.)
The Company acquires BD Vinton Steel in the US state of Texas and changes the name to Vinton Steel LLC.



1994
Kanto Steel Ltd. is established.

2006
Kyoei Steel is listed on the First Section of the Tokyo Stock Exchange and the First Section of the Osaka Securities Exchange.

2015
A Steel making factory and No.2 rolling mill is completed at VKS.

Kyoei Steel will soon celebrate the Company's 70th anniversary.

Mitsuhiro Mori
President and Representative Director

Sharply higher prices for steel scrap in the Kyoei Steel Group's core domestic steel business caused the metal spread to shrink, compounding the difficulties in this business. However, the overseas steel business that we are developing in Vietnam was characterized by robust demand for steel materials, leading to a significant improvement in performance.

As a result, on a consolidated basis we achieved net sales of ¥145,991 million, down 9.3% year on year. Operating income fell 42.2%, to ¥7,971 million, and profit attributable to owners of parent decreased 43.5%, to ¥4,783 million. We paid out dividends for the year of ¥30, including a year-end dividend of ¥20.

Net sales	¥145,991 million
Operating income	¥7,971 million
Profit attributable to owners of parent	¥4,783 million

2017 marks the Company's 70th anniversary. I sincerely thank our shareholders and investors for their ongoing support, and ask for their continuing guidance and encouragement.

Operating Performance in the Fiscal Year Ended March 31, 2017

Higher Profits from Overseas Partly Covered a Profit Decline in the Domestic Steel Business

In the construction steel products market, demand for steel products failed to grow in the area of primary demand for the domestic steel business. Against this backdrop, prices for the scrap steel used to make these products rose sharply in the first and third quarters of the fiscal year. Prices were particularly high from November on (third quarter), affected by overseas market prices, notably in the United States and China.

Faced with this situation, we endeavored to raise our prices. However, as it takes some time for contract prices to be reflected in delivery prices, the metal spread shrank sharply, causing profits to fall year on year.

In the overseas steel business, vigorous demand for steel in Vietnam led to favorable production and sales, prompting higher sales and profits in this business.

For the material recycling business, we focused on acquiring projects characterized by materials that are difficult to dispose of, but waste disposal volumes were down due to the closure of the Osaka Mill and problems with disposal equipment. Sales and profits both declined year on year as a result.

Consequently, although sales and profits were down on a consolidated basis, overseas steel business compensated to some extent for slow performance in Japan. This situation highlights one of the Kyoei Steel Group's strengths: diversity.

Initiatives and Results during the Year

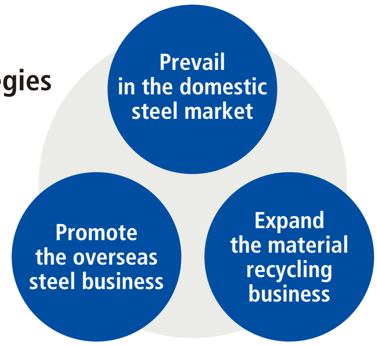
Backed by Economic Growth in Vietnam, Combined Sales Volume for VKS and KSVC Reached
Approximately 1 Million Tons

In our medium- to long-term business vision, we outlined three growth strategies: "prevail in the domestic steel market," "promote the overseas steel business" and "expand the material recycling business." With these strategies, we are aiming for further growth.

In the domestic steel business, to minimize the impact of a shrinking metal spread, we are continually working to cut costs through measures such as improving production technologies. In particular, we are striving to cut unit electric power consumption (the amount of electricity needed to produce one ton of product) at all our mills. During the year, these efforts contributed to a substantial reduction in energy costs.

In the overseas steel business, partly because the

Three Growth Strategies



integrated steelmaking and rolling line at VKS in Vietnam is now capable of full production, VKS and KSVC recorded a combined sales volume of around 1 million tons for the year, raising earnings for both companies. To grow our global network and mitigate business risk, in December 2016 we acquired all the shares of BD Vinton LLC (now Vinton Steel LLC), based in the US state of Texas, and converted that company into a subsidiary.

Following this acquisition, the Kyoei Steel Group's steel business has become tripolar, with operations in Japan, Vietnam and the United Sates. From next fiscal year, we will be within range of total global production capacity of 3 million tons, one of the goals of our medium- to long-term business vision.

In the material recycling business, we revamped the Group's internal organization in the second half. Our aims were threefold: (1) increase efficiency by consolidating the sales functions within the Group, (2) enter into strategic capital and business alliances, and (3) reinforce the safety management system.

Outlook for the Fiscal Year Ending March 31, 2018

Net Sales Expected to Rise Substantially Due to the Conversion of Vinton Steel in the US into a Subsidiary

In the domestic steel business, large-scale products are anticipated, due to demand related to the Tokyo Olympics, as well as infrastructure projects. The recovery in demand for steel materials, however, is likely to occur from around the second half of the fiscal year. Given the robust demand overseas, we expect the price of steel scraps to remain high. We are also concerned that production costs will increase as electric power and other energy costs rise, along with those of associated materials.

In the overseas steel business, competition is likely to grow tougher, as supply volumes rise in tandem with robust demand in Vietnam. By raising sales volumes and strengthening cost competitiveness at VKS and KSVC, we expect to see higher sales and profits. We also aim to considerably boost earnings through productivity improvements at Vinton Steel.

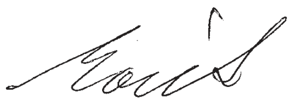
In the material recycling business, we will strive to create a new growth trajectory by benefiting early on from organizational restructuring.

For the Group as a whole, we anticipate a major increase in net sales, to ¥180.0 billion, due to the consolidation of Vinton Steel. We expect profits to be down year on year, due mainly to a shrinking metal spread in Japan and rising production costs, leading to operating income of ¥5.9 billion and profit attributable to owners of parent of ¥3.9 billion.

By promoting a global tripolar structure in the steel business and expanding the material recycling business, the Kyoei Steel Group plans to stabilize the management base. Although the operating environment is forecast to remain difficult, we aim to achieve robust growth as a steel minimill company with a presence.

Mitsuhiro Mori

President and
Representative Director



PROFILE

Joined Kyoei Steel in 1970. Appointed the first President of Vina Kyoei Steel Co., Ltd. (VKS), established in southern Vietnam in 1994. In 2000, appointed General Manager of the Overseas Business Department, then once again as president of VKS in 2010 after having been Deputy General Manager of the Hirakata Division, and others. In June 2015, appointed President of Kyoei Steel, Ltd.

MARKET TRENDS

Domestic Steel Business

Signs of Small Rebar Demand Bottoming Out, Moving toward Recovery

Looking at recent trends in the Japanese steel market, demand fell for the three years from fiscal 2014, but showed signs of bottoming out on a half-year basis in the second half of fiscal 2016. Domestic demand for small rebar is expected to move toward a full-fledged recovery in fiscal 2018, due to demand related to the Olympics and the start of specific projects, such as the Hokuriku Shinkansen (bullet train), particularly from the second half.

Overseas Steel Business

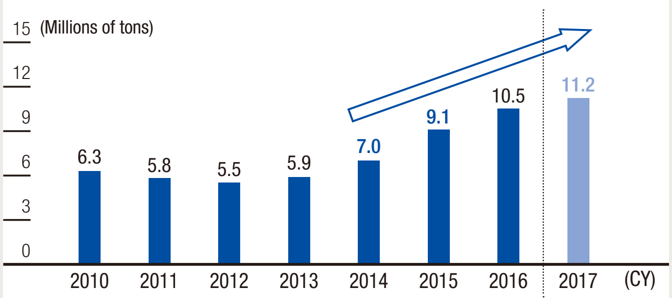
Ongoing Expansion of Demand for Long Products, in Line with Vietnam's Economic Growth

Vietnam is expected to maintain high levels of economic growth, with GDP forecast to rise 6.5% in 2017. As in the previous year, demand for steel products remains robust. Demand outpaced Japanese levels in 2015 and quickly surpassed 10 million tons in 2016.

Material Recycling Business

The volume of industrial waste processing is trending downward in Japan, but processing fees are going up. The reason is that emissions from difficult-to-process waste are rising, requiring increasingly sophisticated processing techniques. In recent years, the emergence of large companies able to provide this sophisticated level of processing has made the competitive environment increasingly difficult.

Trends in Demand for Long Products in Vietnam



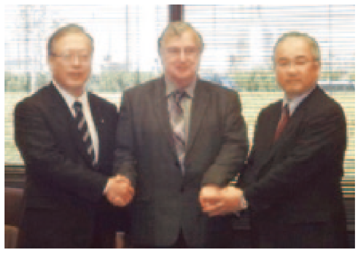
Vinton Steel (Vinton Steel LLC)

Kyoei Steel Enters the Steel Business in the United States, Acquires Production and Sales Base

In December 2016, we acquired all the shares of BD Vinton LLC, operating in the US state of Texas, through Kyoei Steel America LLC, our consolidated subsidiary. We converted the company into a subsidiary called Vinton Steel LLC, now the US base for the Kyoei Steel Group.

Located in Texas near the US border with Mexico, Vinton Steel has been operating continually as a steel minimill company for more than 50 years. The company produces rebar and steel balls used for ore crushers in mining applications. Vinton Steel has an annual production capacity of 250,000 tons of steel, can roll 200,000 tons of steel rebar and has the capacity to forge 50,000 tons of steel balls for mine ore crushers. The company has scrap facilities on-site, covering integrated processes that span the handling of raw materials through to making final products. Annual US steel demand is currently around 8 million tons, and the market is stable. Vinton Steel's commercial area covers the Texas region (demand of around 1 million tons) to the West Coast, which has demand of 2 million tons. Texas, where the company is located, has the second largest population among the states, and it continues to grow. Accordingly, we expect steel demand to remain strong. Demand also continues to grow in California, which is included in the company's sales area, creating a favorable business environment. By introducing Kyoei Steel's technologies, we believe we can lower the company's production costs. Furthermore, by expanding the sales area we anticipate higher sales, leading to increased profits.

This move marks the Kyoei Steel Group's third foray into the United States, following moves in the 1970s and 1990s. Backed by stable demand in the United States, an advanced country, we believe we can apply the know-how we have developed in overseas businesses to create a tripolar global structure: Japan, Vietnam and the US.



Senior Vice President Hirotomi (left) and Executive Officer Kitada (right) at the agreement signing

Chairman Takashima (center) and President Mori (second from left) visiting Vinton Steel

Overview of Vinton Steel

Location	Vinton, El Paso, Texas, US
Established	1962
Products	Rebar, steel balls for crushing ore at mines
Production capacity	250,000 tons of steel, 200,000 tons for rolling (steel rebar) and 50,000 tons for forging (steel balls)
Representative and president	Masahiro Kitada (Executive Officer of Kyoei Steel)
Investor and ownership ratio	KYOEI STEEL America LLC* 100%

* KYOEI STEEL America LLC is a wholly owned subsidiary of the Company, that oversees the steel business in the United States.

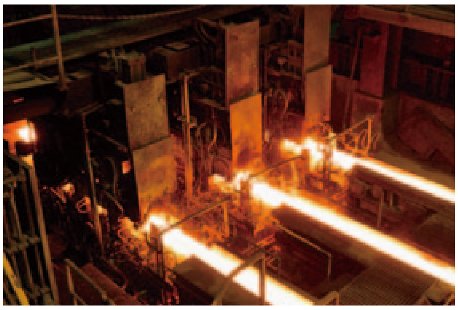
BUSINESS OVERVIEW

In the domestic steel business segment, sales and income were both down due to a lack of robust demand and lower sales of semi-finished products as a result of closing the Osaka Mill. In the overseas steel business segment, we increased production because a new production line began operating at our base in southern Vietnam, where business is growing.

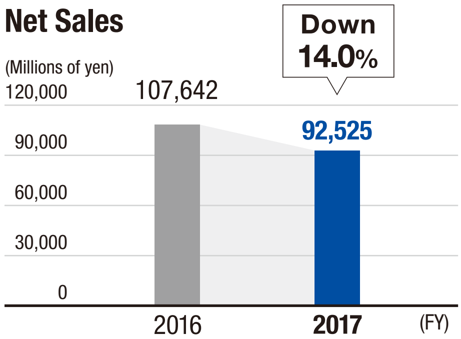
Domestic Steel Business

In this segment, the volume of product shipped increased 21,000 tons year on year to 1,662,000 tons. Of this amount, exports were 61,000 tons. Although product prices fell ¥5,100 per ton year on year, prices for scrap steel—our main raw material—rose ¥2,500 per ton. The metal spread, which is the source of the Company's profits, therefore decreased by ¥7,600 per ton.

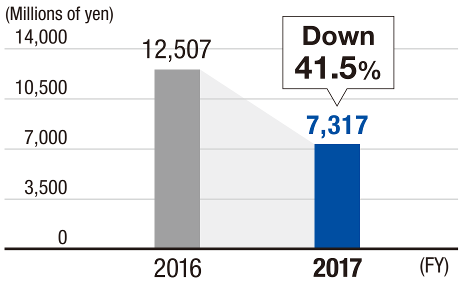
As a result, segment sales were ¥92,525 million, a year-on-year decrease of ¥15,117 million, or 14.0%, while operating income fell ¥5,190 million, or 41.5%, to ¥7,317 million.



Net Sales



Operating Income



TOPICS

Organizational Restructuring of the Group's Material Recycling Business

We are consolidating sales activities at all of our offices to respond more swiftly and flexibly and to grow the business.

For one of our three growth strategies—to expand the material recycling business—on October 1, 2016 we began restructuring the Group's organization.

We consolidated at the headquarters the industrial waste mediation previously handled by Group company Kyoei Industrial Co., Ltd. We also integrated at the headquarters the sales activities that had been handled up to now by individual business offices, thereby strengthening the Group's overall sales ability. By entering into business and capital alliances with other companies that have processing plants, we are also aiming to provide one-stop solutions to respond more broadly to customers' increasingly diverse requirements.

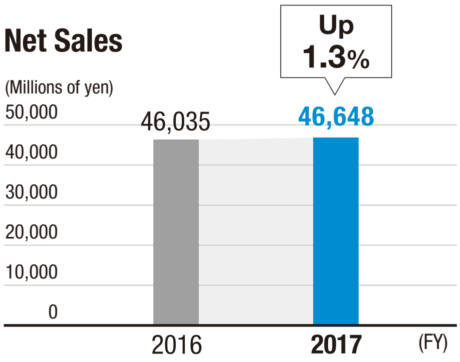
At the same time, amid a growing awareness of compliance in industrial waste processing, we recognized the need to heighten our focus on compliance and safety. For this reason, we established a specialized auditing department. By reinforcing compliance and safety, we are creating higher-quality processing and striving to enhance awareness of the Kyoei Steel Group's brand for industrial waste processing.

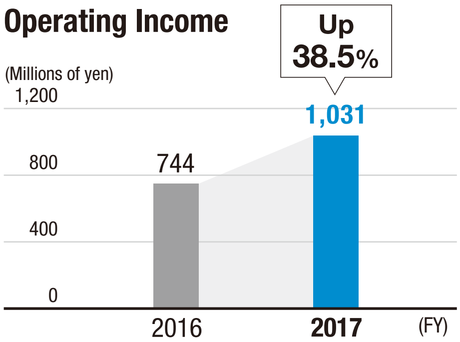
As one part of these activities, we have introduced a QR (quick response) code system for tracking industrial waste during processing. An industry breakthrough, this system boosts traceability beyond previous levels, which should lead to increased levels of trust in us.

Overseas Steel Business

For the fiscal year under review, there were three companies in this segment: Vina Kyoei Steel Ltd. (VKS), located in southern Vietnam; Kyoei Steel Vietnam Company Limited (KSVC), in the north of the country; and Kyoei Steel America LLC (KSA), a US holding company. In calendar 2016, the Vietnamese economy maintained a high level of growth: real GDP rose 6.2%. Demand for long products, centered on steel rebar, rose by around 15% year on year. Against this backdrop of favorable demand, both VKS and KSVC enjoyed strong increases in sales volume; the two companies recorded a combined output of approximately 1 million tons. However, due to the introduction of safeguards to counter an influx of inexpensive products from China, the price rose and remains high for semi-finished products, the raw materials for these two companies. Furthermore, product prices have dropped because of a more competitive environment, causing profits to fall in the second half. KSA, meanwhile, incurred expenses associated with the acquisition of Vinton Steel in the United States.

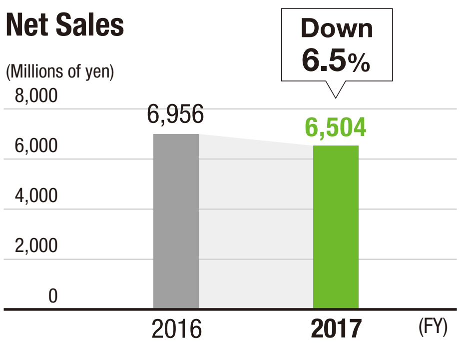
As a result of these factors, segment sales rose ¥613 million year on year, or 1.3%, to ¥46,648 million. Operating income surged ¥287 million, or 38.5%, to ¥1,031 million.

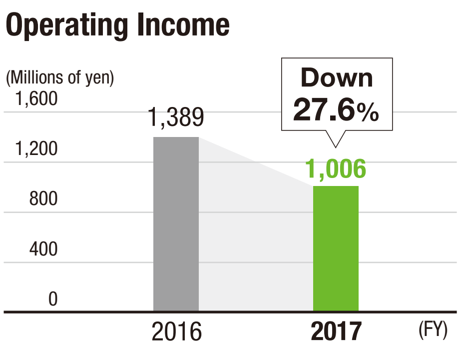




Material Recycling Business

In this segment, the Company focused on acquiring projects with difficult-to-process items. However, the closure of the Osaka Mill and problems with processing equipment led to a decline in the amount of waste being processed. As a result, segment sales fell ¥452 million, or 6.5%, to ¥6,504 million, and operating income declined ¥383 million, or 27.6%, to ¥1,006 million.





BOARD DIRECTORS AND CORPORATE AUDITORS

From top left to bottom right: Shuji Ichihara, Toshimasa Zako, Naoyoshi Goroku, Yasuyuki Hirotomi, Kazuyoshi Ota, Haruo Hiraiwa, Hideichiro Takashima and Mitsuhiro Mori

Chairman and Representative Director

Hideichiro Takashima

President and Representative Director

Mitsuhiro Mori

Board Director & Senior Vice President	**Yasuyuki Hirotomi**	
Board Director & Senior Executive Managing Officer	**Naoyoshi Goroku**	Marketing Planning & Coordination
	Kazuyoshi Ota	General Manager of Yamaguchi Division
Board Director & Executive Managing Officer	**Toshimasa Zako**	Corporate Planning, Overseas Investment, Project Planning & Development
	Haruo Hiraiwa	Production Planning & Coordination General Manager of Nagoya Division
Board Director & Executive Officer	**Kenji Ishihara**	Accounting & Financing, Information Systems, Material Recycling
	Osamu Narumi	General Manager of Hirakata Division
	Shogo Sakamoto	Deputy General Manager of Yamaguchi Division
	Katashi Enomoto	Compliance, Human Resources & General Affairs
Board Director (External Board Director)	**Nobuhiko Arai**	Senior Adviser of TOYO TEC CO., LTD.
	Tetsuya Yamao	Partner of UMEDA SHINMICHI LAW OFFICE External Auditor of CYPRESSCLUB CO., LTD.
Standing Corporate Auditor	**Shuji Ichihara**	
Corporate Auditor (External Auditor)	**Hiroshi Ito**	General Manager of Group Companies Planning Div. of Nippon Steel & Sumitomo Metal Corporation
	Akira Kotani	Chairman of Shijonawate Gakuen

CORPORATE GOVERNANCE

Kyoei Steel recognizes the importance of the following goals to coexist with society and contribute to the development of the Japanese economy and local communities as a corporate group: (1) build a management system capable of prompt and accurate responses to changes in the business environment; (2) strive for rational decision-making and efficient execution for sufficient fulfillment of the duty of accountability; (3) ensure transparent and fair decision-making; (4) seek to pursue sound ethics not only from a legal perspective but also more broadly in accordance with social norms; and (5) disclose information promptly and appropriately to stakeholders. We have systematically put in place and are enhancing our corporate governance framework to achieve these goals, and are working to achieve sustainable growth and enhance corporate value for Kyoei Steel and the Kyoei Steel Group.

Board of Directors

Our Board of Directors totals 13 members (with two external directors), including two representative directors and 11 board directors. The Board executes important decisions and oversees the execution of business by the board directors and executive officers. In addition to regular monthly meetings, extraordinary meetings of the board are convened when necessary.

Management Conferences are held concerning Board of Directors meeting agenda items or important matters for discussion, adjustment, or decision pertaining to management execution.

Management Conferences are attended by executive managing officers, standing corporate auditors, executive officers, and the president of Kanto Steel Ltd., as well as others designated by the chairman or president.

In addition to being held monthly, extraordinary Management Conferences may be convened when necessary. On June 15, 2016, we established the Nomination and Remuneration Advisory Committee as a voluntary advisory body to the Board of Directors. This committee is composed of independent external directors and board directors selected by resolution of the Board of Directors.

Board of Auditors

The Board of Auditors is has one standing corporate auditor and two corporate auditors for a total of three members (two of whom are external auditors), each thoroughly versed in the business of the Company and the industry, with one corporate auditor who is an independent executive posing no conflict of interest with general shareholders. Auditors monitor the effectiveness of governance and audit management performance, including the execution of duties by directors. The Articles of Incorporation limit the number of corporate auditors to five.

Sales & Marketing Committee

The president serves as the committee chairman, with other members being the director in charge of the Marketing Planning & Coordination Department, the general managers of the Sales & Marketing Department of each division, and others designated by the chairman. In principle, the committee meets monthly. In addition to the detailed sharing of information concerning the environment and situation surrounding steel scrap (raw material) and product market conditions, the members propose business strategy plans. Exchanges of timely information concerning sales and purchasing are also conducted via the Company intranet.

Corporate Risk Management Committee

This committee, chaired by the president, includes people in charge of risk and compliance in each department and is charged with the oversight of risk management and with promoting compliance for the Kyoei Steel Group. The committee also spearheads education and awareness programs aimed at reducing risk across the Group, setting priority items and formulating annual plans, as well as determining the status and assessing initiatives.

Compliance System

The Internal Auditing Department has been established as a department to which the president is directly attached, and in addition to conducting regular business audits, it also audits the execution of work by the executive officers and employees. Also, when questions arise concerning compliance, executive officers and employees can report to the Compliance Committee or internally to the Compliance Consultation Desk, which has been established for that purpose. A system has been established whereby the details and proposals for resolution are relayed via the Compliance Committee to the Board of Directors and the corporate auditors, in the rare event that a compliance infraction has occurred.

Initiatives Targeting Affiliated Companies

Based on the Kyoei Steel Group's management philosophy and code of conduct, we formulated basic rules concerning regulations for managing subsidiaries. We have also formulated a management structure by department for subsidiaries. By dispatching corporate auditors to affiliated companies, we audit their internal control systems, and the Company's Internal Auditing Department performs regular internal audits. We also call on individual subsidiaries to establish compliance programs based on the Company's programs, depending on the type and scale of their operations.

Elimination of Antisocial Forces

The Kyoei Steel Group maintains a basic policy of never associating with antisocial forces and organizations that threaten the order and safety of civil society, and resolutely opposes any injurious pressure or demands from them. Furthermore, we have joined with police, attorneys and other external specialist organizations to create a structure for the elimination of antisocial forces.

External Directors / External Auditors

Kyoei Steel has two external board directors and two external auditors.

We are working to strengthen our management oversight functions, and have appointed an external board directors and external auditors with assured independence for more sound, fair, and transparent management as well as to ensure fulfillment of our duty of accountability.

External Board Director Nobuhiko Arai has rich experience as manager at such companies as Resona Trust & Banking Co., Ltd. (the present Resona Bank, Ltd.) and TOYO TEC CO., LTD. and we have appointed him based on our belief that he will provide advice on overall management judgments.

External Board Director Tetsuya Yamao has significant experience and specialized knowledge as an attorney, as well as a robust spirit of compliance. We have appointed him based on our judgment that he will conduct his duties appropriately.

External Auditor Hiroshi Ito has many years of experience in the steel industry, and we have appointed him based upon our judgment that as a specialist his auditing will strengthen and improve our corporate group's auditing structure.

External Auditor Akira Kotani has rich experience as a banker, and we have appointed him based upon our judgment that as a specialist his auditing will strengthen and improve our corporate group's auditing structure.

Method for Deciding Executive Pay and Executive Pay Amounts

Executive compensation is within the remuneration range resolved at the General Meeting of Shareholders, and takes into consideration factors such as the management situation, the balance between executive compensation and employee salaries and degree of responsibility. Based on these factors, the Company's policy is to pay amounts that are in line with its operating performance, as well as individual performance and achievement. The Company's executive compensation system and method of assessment of performance/determining executive compensation amounts employ a framework under which the Nomination and Remuneration Advisory Committee—composed of independent external board directors and directors selected by resolution of the Board of Directors—deliberates these matters, which are then reviewed and resolved. In this way, the Company employs a highly transparent remuneration system from the standpoint of objectivity.

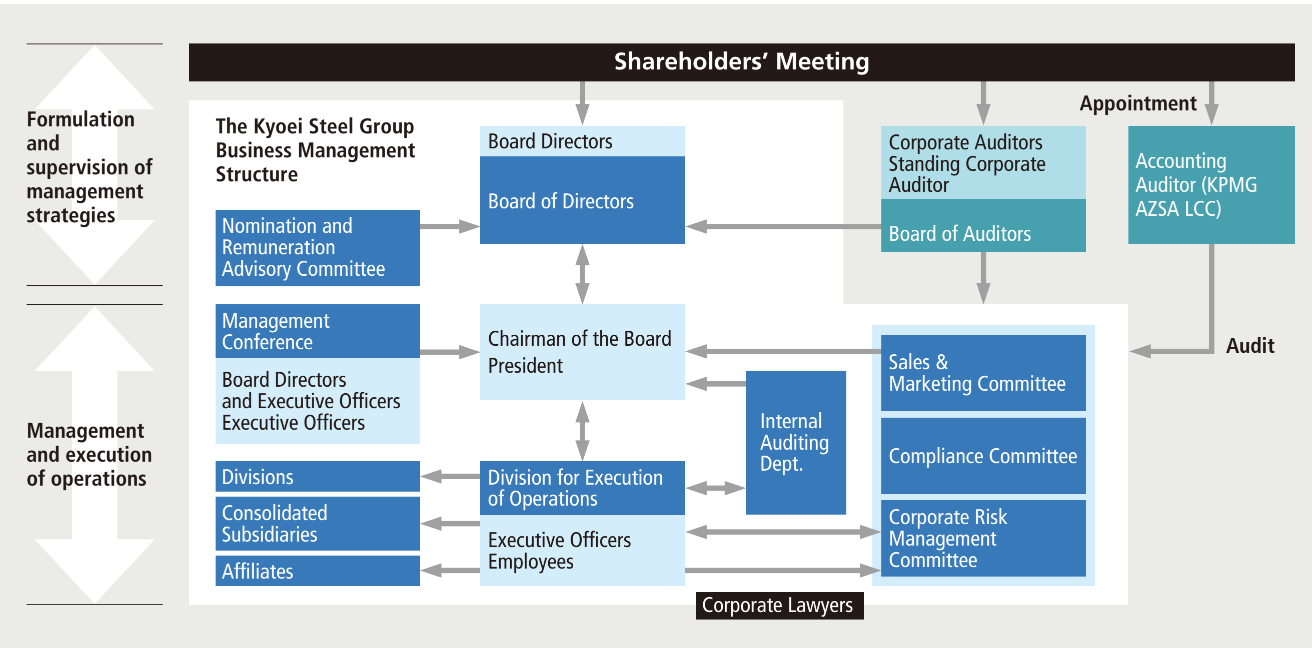
It has been resolved that compensation for all board directors shall not exceed ¥550 million annually, while compensation for all corporate auditors shall not exceed ¥60 million annually.

Risk Management

We classify potential risks as follows: (1) operational risks at our production sites; (2) product liability; (3) credit risk related to sales; (4) credit risk associated with investment and lending; and (5) risks related to natural disaters.

Our executives are always examining and sharing measures for preventing and hedging every type of risk. Moreover, the internal communication system for use in the event of an emergency is very well known, and in case of an emergency the department with jurisdiction immediately contacts the Headquarters Human Resources and General Affairs Department, whereupon the Headquarters Human Resources and General Affairs Department transmits the information via the prescribed network.

Corporate Governance Structure



BUSINESS AND OTHER RISKS

(1) Relationship with Nippon Steel & Sumitomo Metal Corporation

As of June 23, 2016, Nippon Steel & Sumitomo Metal Corporation (NSSMC) owned 25.8% of the outstanding shares in Kyoei Steel (26.7% of the voting rights) and is the Company's largest shareholder. Kyoei Steel is an equity-method affiliate of NSSMC. The Company operates autonomously and conducts business independently, and intends to continue doing so in the future; provided, however, that as the top shareholder in our company, NSSMC is in a position to influence our operations by exercising its voting rights, and the interests of NSSMC may not necessarily coincide with those of the Company's other shareholders.

(2) Selling Price Fluctuations Caused by Competition

There are a number of steel minimill companies competing in the main business of our Group, which is steel products for construction work, and excess production capacity is a structural issue that we face. Consequently, as demand for steel products fluctuates, competition to maintain sales volumes increases, and the resulting reductions in selling prices may influence the results of our Group.

(3) Fluctuations in Raw Materials Prices

Steel production is growing in the countries of Asia, which has experienced rapid economic growth in recent years, with consumption of steel scrap also trending upward. At the same time, semi-finished product exports from China to neighboring Asian countries have increased, significantly lowering steel scrap prices. These factors can cause the supply/demand environment for steel scrap, which is the principal raw material of our main products, to experience severe price fluctuations that may influence the results of our Group.

(4) Impact of the Downward Trend in Construction Demand

With the Japanese economy in a state of maturity, we believe that neither domestic public- nor private-sector demand is likely to expand significantly over the long term. Accordingly, we judge that demand for the Group's mainstay product, rebar, is likely to decrease. If the Group's efforts to supplement this demand are unsuccessful, the Group's results could be affected.

(5) Effects of Power Supply Issues

Most nuclear power plants in Japan are currently not operating, causing a significant increase in the cost of electricity. This has resulted in Tokyo Electric Power, Kansai Electric Power, Chubu Electric Power, and other power companies raising their rates. Going forward, fluctuations in energy prices and exchange rates may be associated with further increases in electricity rates, though there was a temporary drop in the unit price adjusted for fuel costs, which is determined by the cost of thermal power plant fuel (liquefied natural gas and crude oil).

Also, the halt of nuclear power plant operations has been given as a reason for possible power shortages. Our Group mainly operates plants at night, when power demand is low, so we believe there is little chance of limits on power use being imposed directly, but broad limits imposed on power supplies in the future could make our operations difficult.

As a result, electricity rates and the power supply situation may influence Group results.

(6) Effects of Sharply Higher Energy Prices

If global energy prices (for oil, LNG, etc.) were to increase sharply, or if exchange rate trends were to cause a rise in energy import prices, the cost of the fuel used in our production processes (mainly those involving the reheat furnace) would also rise. In addition, against a backdrop of the cessation of operations of almost all nuclear power plants in Japan, higher energy prices are connected to a rise in electricity rates. Otherwise, a spike in oil prices could cause export costs to rise. An increase in energy prices that continues over the long term could indirectly cause a slowdown in the rate of Japanese economic growth, which may cause a contraction in construction demand. The above items may influence the results of our Group.

(7) Country Risk Regarding Our Subsidiaries

Kyoei Steel's subsidiaries are located in the Socialist Republic of Vietnam and the United States. The results of those subsidiaries are influenced by the economic conditions there and their markets for steel products. If economic conditions or markets for steel products deteriorate in Vietnam and the US, this may adversely affect the results of those subsidiaries. In addition, sudden political instability, a natural disaster or an industrial accident in those countries could lead to a cessation of operations or similar problems, and given that economic conditions and trade customs differ from those in Japan, recovery in these cases could take longer than expected.

The above items may influence the Group's results.

(8) Impact of Natural Disasters

If a large-scale earthquake, typhoon or other natural disaster affects a site where the Group's mills are located, damage to production equipment and infrastructure could result in a suspension of mill operations. Mills near the sea or rivers are particularly susceptible to tsunami, flooding and other types of water damage. Disaster prevention measures are in place at all mills on both the facility and personnel fronts. However, if hit by disaster, the Group's results could be affected.

Consolidated Ten-Year Summary

For the years ended March 31, 2008 through 2017

	2008	2009	2010	2011	2012
Product shipments (Thousands of tons):					
Finished product	2,078	1,717	1,431	1,462	1,549
Billet (semi-finished products)	284	259	205	243	297
For the year (Millions of yen):					
Net sales	¥ 181,576	¥ 194,345	¥ 111,485	¥ 116,828	¥ 130,650
Gross profit	27,456	36,672	19,999	8,124	12,780
Operating income (loss)	17,189	26,270	11,454	(206)	4,166
Income (loss) before income taxes	17,195	23,388	11,121	(386)	3,151
Profit (loss) attributable to owners of parent	11,070	14,009	6,691	(794)	1,692
Research and development expenses	26	152	44	43	29
Depreciation and amortization	4,738	4,869	4,992	4,806	4,644
Capital expenditures	5,550	5,173	4,815	2,706	4,991
Per share amounts (yen):					
Net income (loss), basic	253.66	318.72	152.23	(18.22)	38.89
Net income (loss), diluted	–	–	–	–	–
Cash dividends applicable to the year	30.00	40.00	40.00	20.00	20.00
At year-end:					
Total assets	¥ 166,572	¥ 153,711	¥ 151,125	¥ 146,453	¥ 164,486
Working capital	28,316	43,120	50,334	51,265	61,950
Interest bearing debt	1,952	1,540	1,729	1,665	10,877
Net assets	107,846	119,154	124,905	119,973	122,725
Shareholders' equity*	107,129	118,387	124,076	119,064	120,344
Ratios:					
Return on equity (%)	10.8	12.4	5.5	(0.7)	1.4
Return on total assets (%)	10.4	16.6	7.7	(0.0)	2.8
Debt to equity ratio (times)	0.02	0.01	0.01	0.01	0.09
Shareholders' equity* to total assets (%)	64.3	77.0	82.1	81.3	73.2
Other statistics:					
Number of shares outstanding (thousands)	44,899	44,899	44,899	44,899	44,899
Number of employees	1,049	1,045	1,061	1,077	1,299
Stock price (yen):					
High	¥ 3,750	¥ 2,590	¥ 2,805	¥ 2,082	¥ 1,692
Low	¥ 1,532	¥ 911	¥ 1,544	¥ 876	¥ 1,011

DATA SECTION

2013	2014	2015	2016	2017	
					Products shipment (Thousands of tons)**:**
1,603	1,720	1,680	1,641	**1,662**	Finished products
303	247	280	259	**18**	Billet (semi-finished products)
					For the year (Millions of yen)**:**
¥ 142,305	¥ 174,694	¥ 181,436	¥ 160,952	**¥ 145,991**	Net sales
13,256	12,293	21,900	23,889	**18,726**	Gross profit
4,343	2,857	11,796	13,792	**7,971**	Operating income
3,738	9	10,730	12,432	**7,698**	Income before income taxes
2,069	(795)	6,923	8,467	**4,783**	Profit (loss) attributable to owners of parent
95	188	231	104	**119**	Research and development expenses
4,254	4,232	4,147	5,026	**5,961**	Depreciation and amortization
3,809	7,344	15,920	10,103	**7,262**	Capital expenditures
					Per share amounts (yen):
47.59	(18.28)	159.30	194.94	**110.41**	Net income (loss), basic
–	–	–	–	**–**	Net income (loss), diluted
20.00	20.00	35.00	45.00	**30.00**	Cash dividends applicable to the year
					At year-end:
¥ 165,129	¥ 180,771	¥ 201,760	¥ 200,436	**¥ 214,341**	Total assets
63,811	79,699	81,872	83,565	**93,301**	Working capital
11,231	26,530	32,810	33,149	**41,414**	Interest bearing debt
125,257	128,788	138,052	143,090	**146,663**	Net assets
122,515	121,622	129,546	134,886	**138,365**	Shareholders' equity*
					Ratios:
1.7	(0.7)	5.5	6.4	**3.5**	Return on equity (%)
2.9	2.1	6.6	7.1	**4.1**	Return on total assets (%)
0.09	0.22	0.24	0.23	**0.28**	Debt to equity ratio (times)
74.2	67.3	64.2	67.3	**64.6**	Shareholders' equity* to total assets (%)
					Other statistics:
44,899	44,899	44,899	44,899	**44,899**	Number of shares outstanding (thousands)
1,327	1,611	1,741	1,806	**2,341**	Number of employees
					Stock price (yen)**:**
¥ 1,781	¥ 2,220	¥ 2,286	¥ 2,455	**¥ 2,349**	High
¥ 1,105	¥ 1,372	¥ 1,618	¥ 1,584	**¥ 1,387**	Low

*Shareholders' equity = Net assets – Non-controlling interests

Financial Review (Consolidated)

1 Consolidated Operating Results

Operating Results

In the fiscal year ended March 31, 2017, the Japanese economy recovered gradually despite the slow pace of improvements in some sectors. However, the economic outlook remained uncertain as geopolitical risk increased due to Britain's departure from the EU, the election of a new U.S. president and other events.

In the market for steel construction materials in Japan, the primary source of demand for the products of Kyoei Steel Group ("the Group"), there was general lackluster demand for steel. But there were steep increases in the price of steel scrap in the spring and fall of 2016 caused by overseas events. The price of steel scrap was particularly high starting in the fall of 2016 because of very strong demand for steel in the United States and China. Although the Group raised prices of its products, higher contractual prices were not immediately reflected in the prices of products that were shipped. This time lag caused a big decrease in the metal spread, which is the difference between prices of steel products and steel scrap. In the Overseas Steel Business, sales volumes increased at Vina Kyoei Steel Ltd. (VKS) in southern Vietnam and Kyoei Steel Vietnam Company Limited (KSVC) in northern Vietnam because of the strong demand for steel in Vietnam.

On December 21, 2016, the consolidated subsidiary Kyoei Steel America LLC (KSA), which is located in Delaware, U.S., acquired all the equity interests of BD Vinton LLC (now Vinton Steel LLC, hereafter "VS"), which is located in Texas. VS and its subsidiary became consolidated subsidiaries, Vinton Metal Processing LLC (MPI), through this acquisition. The acquisition was treated as having taken place on December 31, 2016 for accounting purposes. As a result, results of the operations of these two subsidiaries are not included in the consolidated statements of operations for the fiscal year ended March 31, 2017.

Overall, consolidated sales decreased 14,961 million yen ($133,366 thousand), or 9.3%, to 145,991 million yen ($1,301,399 thousand). Operating income decreased 5,821 million yen ($51,890 thousand), or 42.2%, to 7,971 million yen ($ 71,055 thousand), and profit attributable to the owners of parent decreased 3,684 million yen ($32,840 thousand), or 43.5%, to 4,783 million yen ($42,637 thousand).
Results by business segment are described below.

1) Domestic Steel Business

Shipments of finished products increased 21 thousand tons from one year earlier to 1,662 thousand tons, which included exports of 61 thousand tons. Product prices fell by 5,100 yen ($45.46) per ton from one year earlier, but the price of steel scrap, the primary raw material, increased 2,500 yen ($22.29) per ton. As a result, the difference between the price of steel products and steel scrap, the source of earnings in this segment, narrowed by 7,600 yen ($67.75) per ton. Segment sales decreased 15,117 million yen ($134,757 thousand), or 14.0%, to 92,525 million yen ($824,791 thousand), and operating income was down 5,190 million yen ($46,265 thousand), or 41.5%, to 7,317 million yen ($65,226 thousand).

2) Overseas Steel Business

The Overseas Steel Business segment includes the operations of two companies in Vietnam, VKS in southern Vietnam and KSVC in northern Vietnam, and the U.S. holding company KSA. In 2016, Vietnam recorded strong GDP growth of 6.2% with an increase of about 15% in demand for long steel products, especially rebars. Sales volume at both VKS and KSVC increased, resulting in combined sales reaching about one million tons. However, prices of semi-finished steel products, the main raw material used by the two companies, increased and remained high because of the start of safeguard measures in Vietnam in response to inflows of cheap steel products from China. Lower prices caused by intense competition also created challenges. Due to these difficulties, profits at the subsidiaries in Vietnam decreased in the second half of 2016. At KSA, expenses associated with the acquisition of VS were accounted for. Segment sales increased by 613 million yen ($5,464 thousand), or 1.3%, to 46,648 million yen ($415,832 thousand), and operating income increased by 287 million yen ($2,558 thousand), or 38.5%, to 1,031 million yen ($9,191 thousand).

3) Material Recycling Business

In the Material Recycling Business, Company focused on measures to capture more orders for materials that are difficult to recycle. However, the volume of materials recycled decreased mainly because the Osaka Mill closed and there were problems with equipment. As a result, segment sales decreased by 452 million yen ($4,029 thousand), or 6.5%, to 6,504 million yen ($57,978 thousand), and operating income was down 383 million yen ($3,414 thousand), or 27.6%, to 1,006 million yen ($8,968 thousand).

4) Others

This category includes mainly the sales of civil engineering materials by a subsidiary and an insurance agent business. Sales decreased by 5 million yen ($45 thousand), or 1.4%, to 314 million yen ($2,798 thousand), and operating income was down 30 million yen ($267 thousand) to a loss of 10 million yen ($90 thousand) compared with operating income of 20 million yen in the previous fiscal year.

2 Financial Situation

i. Status of Consolidated Assets, Liabilities and Net Assets

(1) Assets

Current assets increased by 11,226 million yen ($100,071 thousand), or 10.7%, from the end of the previous fiscal year to 115,906 million yen ($1,033,215 thousand). This increase was attributable mainly to increases of 24,707 million yen ($220,244 thousand) in cash and time deposits, 3,650 million yen ($32,537 thousand) in notes and accounts receivable and 4,618 million yen ($41,166 thousand) in inventories and a decrease of 21,600 million yen ($192,548 thousand) in marketable securities.

Long-term assets increased by 2,679 million yen ($23,881 thousand), or 2.8%, from the end of the previous fiscal year to 98,435 million yen ($877,474 thousand). This increase was mainly attributable to a decrease of 4,060 million yen ($36,192 thousand) in accumulated depreciation, an increase of 445 million yen ($3,967 thousand) in intangible assets, an increase of 1,536 million yen ($13,692 thousand) in investments in securities and a decrease of 1,127 million yen ($10,046 thousand) in land.

Total assets increased by 13,905 million yen ($123,953 thousand), or 6.9%, from the end of the previous fiscal year to 214,341 million yen ($1,910,689 thousand).

(2) Liabilities

Current liabilities increased by 12,809 million yen ($114,183 thousand), or 34.4%, from the end of the previous fiscal year to 50,034 million yen ($446,017 thousand). This increase was attributable mainly to increases of 2,716 million yen ($24,211 thousand) in notes and accounts payable and 10,863 million yen ($96,835 thousand) in short-term loans, and a decrease of 1,026 million yen ($9,146 thousand) in income taxes payable.

Long-term liabilities decreased by 2,477 million yen ($22,081 thousand), or 12.3%, from the end of the previous fiscal year to 17,644 million yen ($157,282 thousand). This decrease was attributable mainly to an increase of 838 million yen ($7,470 thousand) in deferred tax liabilities and a decrease of 3,609 million yen ($32,172 thousand) in long-term debt.

Total liabilities increased by 10,332 million yen ($92,102 thousand), or 18.0%, from the end of the previous fiscal year to 67,678 million yen ($603,299 thousand).

(3) Net Assets

Net assets increased by 3,573 million yen ($31,851 thousand), or 2.5%, from the end of the previous fiscal year to 146,663 million yen ($1,307,390 thousand). This was attributable mainly to a profit attributable to owners of parent of 4,783 million yen ($42,637 thousand), dividends of surplus of 1,955 million yen ($17,427 thousand) and an increase of 640 million yen ($5,705 thousand) in valuation difference on available for sale securities.

As a result, from the end of the previous fiscal year, net assets per share increased by 76.16 yen ($0.68) to 3,192.02 yen ($28.45), and shareholder's equity to total assets declined from 67.3% to 64.6%.

ii. Cash Flow Status

Cash and cash equivalents at the end of the current fiscal year decreased by 2,856 million yen ($25,459 thousand) from the end of the previous fiscal year to 36,740 million yen ($327,509 thousand). The cash flow components during the fiscal year and the main reasons for the changes are described below.

(1) Cash flows from operating activities

Net cash provided by operating activities was 6,889 million yen ($61,410 thousand). The major components were income before income taxes of 7,698 million yen ($68,622 thousand), depreciation and amortization of 5,961 million yen ($53,138 thousand), increases of 2,685 million yen ($23,935 thousand) in notes and accounts receivable, 2,150 million yen ($19,166 thousand) in notes and accounts payable, 2,747 million yen ($24,487 thousand) in inventories, a decrease of 651 million yen ($5,803 thousand) in accrued consumption taxes and income taxes paid of 2,968 million yen ($26,458 thousand).

(2) Cash flows from investing activities

Net cash used in investing activities was 16,016 million yen ($142,771 thousand). The major components were an increase in time deposits of 5,965 million yen ($53,173 thousand), payments of 5,612 million yen ($50,027 thousand) for the purchase of investments in subsidiaries resulting in a change in the scope of consolidation, 6,724 million yen ($59,939 thousand) for the purchase of property, plant and equipment and proceeds of 2,343 million yen ($20,886 thousand) from the sale of property, plant and equipment.

(3) Cash flows from financing activities

Net cash provided by financing activities was 6,572 million yen ($58,585 thousand). The major components included a net increase of 10,975 million yen ($97,834 thousand) in short-term loans payable, the repayment of long-term debt of 2,520 million yen ($22,464 thousand) and cash dividends paid of 1,955 million yen ($17,427 thousand).

3 Dividends

It is our fundamental principle to reward our shareholders by increasing corporate value. Accordingly, we endeavor to distribute dividends rationally, while ensuring appropriate internal reserves for business growth and enhancing the corporate structure from a long-term perspective. Accordingly, we plan to pay a year-end dividend of 20 yen ($0.18) per share, initially planned for the fiscal year ended March 31, 2017, including an interim dividend of 10 yen ($0.09), resulting in a total dividend of 30 yen ($0.27) per share for the fiscal year.

Consolidated Balance Sheets

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	**2017**	2016	**2017**
ASSETS			
Current assets:			
Cash and time deposits (Note 12)	**¥ 39,446**	¥ 14,739	**$ 351,631**
Notes and accounts receivable	**35,584**	31,934	**317,204**
Marketable securities	**8,400**	30,000	**74,880**
Inventories (Note 5)	**29,237**	24,619	**260,626**
Deferred tax assets (Note 10)	**410**	538	**3,655**
Other current assets	**2,944**	3,028	**26,244**
Allowance for doubtful accounts	**(115)**	(178)	**(1,025)**
Total current assets	**115,906**	104,680	**1,033,215**
Property, plant and equipment:			
Buildings and structures	**43,014**	44,381	**383,437**
Machinery and equipment	**110,702**	110,591	**986,825**
Land (Note 6)	**23,993**	25,120	**213,879**
Construction in progress	**773**	708	**6,891**
Other	**2,349**	2,373	**20,940**
Total	**180,831**	183,173	**1,611,972**
Accumulated depreciation	**(99,457)**	(103,517)	**(886,584)**
Net property, plant and equipment	**81,374**	79,656	**725,388**
Investments and other assets:			
Investments in securities (Note 17)	**7,433**	5,897	**66,260**
Unconsolidated subsidiaries and affiliated companies (Note 17)	**3,683**	4,772	**32,831**
Investments in long-term loans receivable	**407**	398	**3,628**
Net defined benefit asset (Note 13)	**176**	108	**1,569**
Intangible assets, net	**1,659**	1,214	**14,789**
Deferred tax assets (Note 10)	**323**	615	**2,879**
Other noncurrent assets (Note 17)	**3,444**	3,160	**30,701**
Allowance for doubtful accounts	**(64)**	(64)	**(571)**
Total investments and other assets	**17,061**	16,100	**152,086**
Total assets	**¥ 214,341**	¥ 200,436	**$ 1,910,689**

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	**2017**	2016	**2017**
Liabilities and Net Assets			
Current liabilities:			
Notes and accounts payable	**¥ 11,967**	¥ 9,251	**$ 106,677**
Short-term loans (Note 7)	**24,388**	13,525	**217,401**
Long-term debt due within one year (Note 7)	**3,041**	2,585	**27,108**
Income taxes payable	**949**	1,975	**8,460**
Deferred tax liabilities (Note 10)	**0**	3	**0**
Accrued employees' bonuses	**701**	714	**6,249**
Accrued directors' bonuses	**110**	179	**981**
Provision for loss on business liquidation	**–**	110	**–**
Other current liabilities	**8,878**	8,883	**79,141**
Total current liabilities	**50,034**	37,225	**446,017**
Long-term liabilities:			
Long-term debt (Note 7)	**13,427**	17,036	**119,692**
Deferred tax liabilities (Note 10)	**920**	82	**8,201**
Deferred tax liabilities for revaluation (Note 6)	**2,433**	2,592	**21,688**
Accrued directors' severance and retirement benefits	**9**	8	**80**
Net defined benefit liability (Note 13)	**76**	88	**677**
Other long-term liabilities	**779**	315	**6,944**
Total long-term liabilities	**17,644**	20,121	**157,282**
Total liabilities:	**67,678**	57,346	**603,299**
Net assets (Note 9)			
Shareholders' equity			
Common stock	**18,516**	18,516	**165,056**
Authorized – 150,300,000 shares in 2017			
150,300,000 shares in 2016			
Issued – 44,898,730 shares in 2017			
44,898,730 shares in 2016			
Capital surplus	**21,493**	21,493	**191,594**
Retained earnings	**91,730**	88,546	**817,704**
Treasury stock	**(1,916)**	(2,025)	**(17,080)**
Total shareholders' equity	**129,823**	126,530	**1,157,274**
Accumulated other comprehensive income			
Valuation difference on available for sale securities	**1,952**	1,312	**17,401**
Deferred gains or losses on hedges	**40**	–	**357**
Revaluation reserve for land (Note 6)	**4,618**	4,974	**41,166**
Foreign currency translation adjustments	**1,930**	2,229	**17,204**
Remeasurement of defined benefit plans	**2**	(159)	**18**
Total accumulated other comprehensive income	**8,542**	8,356	**76,146**
Non-controlling interests	**8,298**	8,204	**73,970**
Total net assets	**146,663**	143,090	**1,307,390**
Total liabilities and net assets	**¥ 214,341**	¥ 200,436	**$ 1,910,689**

Consolidated Statements of Operations

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	**2017**	2016	**2017**
Net sales	**¥ 145,991**	¥ 160,952	**$ 1,301,399**
Cost of sales	**127,265**	137,063	**1,134,471**
Gross profit	**18,726**	23,889	**166,928**
Selling, general and administrative expenses (Note 8)	**10,755**	10,097	**95,873**
Operating income	**7,971**	13,792	**71,055**
Other income (expenses):			
Interest income	**288**	297	**2,568**
Dividend income	**222**	222	**1,979**
Interest expense	**(723)**	(578)	**(6,445)**
Share of profit of entities accounted for using equity method	**112**	468	**998**
Foreign exchange losses	**(80)**	(161)	**(713)**
Gain on sale and disposal of property, plant and equipment	**566**	18	**5,045**
Loss on sale and disposal of property, plant and equipment	**(520)**	(435)	**(4,635)**
Impairment loss on fixed assets (Note 18)	**–**	(1,401)	**–**
Reversal of provision for loss on business liquidation	**–**	231	**–**
Loss on liquidation of business (Note 19)	**(120)**	(122)	**(1,070)**
Cash sales discount	**(25)**	(36)	**(223)**
Loss on sales of investments in securities	**(94)**	-	**(838)**
Other, net	**101**	137	**901**
Other income (expenses), net	**(273)**	(1,360)	**(2,433)**
Income before income taxes	**7,698**	12,432	**68,622**
Income taxes (Note 10)			
Current	**1,835**	3,850	**16,358**
Deferred	**722**	440	**6,436**
Total income taxes	**2,557**	4,290	**22,794**
Profit	**5,141**	8,142	**45,828**
Profit (loss) attributable to non-controlling interests	**358**	(325)	**3,191**
Profit attributable to owners of parent	**¥ 4,783**	¥ 8,467	**$ 42,637**

	Yen		U.S. dollars (Note 1)
Amounts per share (Note 14)	**2017**	2016	**2017**
Net income			
Basic	**¥ 110.41**	¥ 194.94	**$ 0.98**
Diluted*	**–**	–	**–**
Cash dividends applicable to the year	**¥ 30.00**	¥ 45.00	**$ 0.27**

* As there was no dilutive stock outstanding during the year, the computation of diluted net income per share was not calculated.

Consolidated Statements of Comprehensive Income

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	**2017**	2016	**2017**
Profit	**¥ 5,141**	¥ 8,142	**$ 45,828**
Other comprehensive income			
Valuation difference on available for sale securities	**640**	(947)	**5,705**
Deferred gains or losses on hedges	**88**	–	**784**
Revaluation reserve for land	**–**	139	**–**
Foreign currency translation adjustments	**(581)**	113	**(5,179)**
Remeasurement of defined benefit plans	**161**	(541)	**1,435**
Other comprehensive income, net (Note 20)	**308**	(1,236)	**2,745**
Comprehensive income	**¥ 5,449**	¥ 6,906	**$ 48,573**
Breakdown of comprehensive income:			
Comprehensive income attributable to owners of parent	**¥ 5,325**	¥ 7,186	**$ 47,468**
Comprehensive income attributable to non-controlling interests	**¥ 124**	¥ (280)	**$ 1,105**

Consolidated Statements of Changes in Net Assets

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	**2017**	2016	**2017**
Shareholders' equity			
Common stock			
Balance at the beginning of current period	**¥ 18,516**	¥ 18,516	**$ 165,056**
Balance at the end of current period	**18,516**	18,516	**165,056**
Capital surplus			
Balance at the beginning of current period	**21,493**	21,493	**191,594**
Balance at the end of current period	**21,493**	21,493	**191,594**
Retained earnings			
Balance at the beginning of current period	**88,546**	81,599	**789,321**
Changes during the period			
Cash dividends	**(1,955)**	(1,520)	**(17,427)**
Profit attributable to owners of parent	**4,783**	8,467	**42,637**
Reversal of revaluation reserve for land	**356**	–	**3,173**
Total changes during the period	**3,184**	6,947	**28,383**
Balance at the end of current period	**91,730**	88,546	**817,704**
Treasury stock			
Balance at the beginning of current period	**(2,025)**	(1,699)	**(18,051)**
Changes during the period			
Purchase of treasury stock	**(1)**	(339)	**(9)**
Sale of treasury stock	**110**	13	**980**
Total changes during the period	**109**	(326)	**971**
Balance at the end of current period	**(1,916)**	(2,025)	**(17,080)**
Total shareholders' equity			
Balance at the beginning of current period	**126,530**	119,909	**1,127,920**
Changes during the period			
Cash dividends	**(1,955)**	(1,520)	**(17,427)**
Profit attributable to owners of parent	**4,783**	8,467	**42,637**
Reversal of revaluation reserve for land	**356**	–	**3,173**
Purchase of treasury stock	**(1)**	(339)	**(9)**
Sale of treasury stock	**110**	13	**980**
Total changes during the period	**3,293**	6,621	**29,354**
Balance at the end of current period	**¥ 129,823**	¥ 126,530	**$ 1,157,274**

KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	Millions of yen **2017**	 2016	Thousands of U.S. dollars (Note 1) **2017**
Accumulated other comprehensive income			
Valuation difference on available for sale securities			
Balance at the beginning of current period	**¥ 1,312**	¥ 2,259	**$ 11,696**
Changes during the period			
Net changes in items other than shareholders' equity	**640**	(947)	**5,705**
Total changes during the period	**640**	(947)	**5,705**
Balance at the end of current period	**1,952**	1,312	**17,401**
Deferred gains or losses on hedges			
Balance at the beginning of current period	**–**	–	**–**
Change during the period			
Net changes in items other than shareholders' equity	**40**	–	**357**
Total changes during the period	**40**	–	**357**
Balance at end of current fiscal year	**40**	–	**357**
Revaluation reserve for land			
Balance at the beginning of current period	**4,974**	4,835	**44,339**
Changes during the period			
Net changes in items other than shareholders' equity	**(356)**	139	**(3,173)**
Total changes during the period	**(356)**	139	**(3,173)**
Balance at the end of current period	**4,618**	4,974	**41,166**
Foreign currency translation adjustments			
Balance at the beginning of current period	**2,229**	2,161	**19,870**
Changes during the period			
Net changes in items other than shareholders' equity	**(299)**	68	**(2,666)**
Total changes during the period	**(299)**	68	**(2,666)**
Balance at the end of current period	**1,930**	2,229	**17,204**
Remeasurement of defined benefit plans			
Balance at the beginning of current period	**(159)**	382	**(1,417)**
Changes during the period			
Net changes in items other than shareholders' equity	**161**	(541)	**1,435**
Total changes during the period	**161**	(541)	**1,435**
Balance at the end of current period	**¥ 2**	¥ (159)	**$ 18**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**8,356**	9,637	**74,488**
Changes during the period			
Net changes in items other than shareholders' equity	**186**	(1,281)	**1,658**
Total changes during the period	**186**	(1,281)	**1,658**
Balance at the end of current period	**¥ 8,542**	¥ 8,356	**$ 76,146**

Consolidated Statements of Changes in Net Assets

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	**2017**	2016	**2017**
Non-controlling interests			
Balance at the beginning of current period	**¥ 8,204**	¥ 8,506	**$ 73,132**
Changes during the period			
Net changes in items other than shareholders’ equity	**94**	(302)	**838**
Total changes during the period	**94**	(302)	**838**
Balance at the end of current period	**8,298**	8,204	**73,970**
Total net assets			
Balance at the beginning of current period	**143,090**	138,052	**1,275,539**
Changes during the period			
Cash dividends	**(1,955)**	(1,520)	**(17,427)**
Profit attributable to owners of parent	**4,783**	8,467	**42,637**
Reversal of revaluation reserve for land	**356**	–	**3,173**
Purchase of treasury stock	**(1)**	(339)	**(9)**
Sale of treasury stock	**110**	13	**980**
Net changes in items other than shareholders’ equity	**280**	(1,583)	**2,497**
Total changes during the period	**3,573**	5,038	**31,851**
Balance at the end of current period	**¥ 146,663**	¥ 143,090	**$ 1,307,390**

Consolidated Statements of Cash Flows

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	**2017**	2016	**2017**
Cash flows from operating activities:			
Income before income taxes	**¥ 7,698**	¥ 12,432	**$ 68,622**
Depreciation and amortization	**5,961**	5,026	**53,138**
Impairment loss on fixed assets	**–**	1,401	**–**
Increase (decrease) in provision	**(151)**	71	**(1,346)**
Increase (decrease) in net defined benefit liability	**(11)**	31	**(98)**
Share of profit of entities accounted for using equity method	**(112)**	(468)	**(998)**
Loss on sales of investments in securities	**94**	–	**838**
Loss (gain) on sale and disposal of property, plant and equipment	**(46)**	417	**(410)**
Interest and dividend income	**(510)**	(519)	**(4,546)**
Interest expense	**723**	578	**6,445**
Decrease (increase) in notes and accounts receivable	**(2,685)**	5,912	**(23,935)**
Decrease (increase) in inventories	**(2,747)**	2,079	**(24,487)**
Increase (decrease) in notes and accounts payable	**2,150**	(3,140)	**19,166**
Increase (decrease) in accrued consumption taxes	**(651)**	(832)	**(5,803)**
Decrease (increase) in net defined benefit asset	**138**	66	**1,230**
Other	**100**	82	**890**
Subtotal	**9,951**	23,136	**88,706**
Interest and dividends received	**612**	621	**5,456**
Interest paid	**(706)**	(595)	**(6,294)**
Income taxes paid	**(2,968)**	(5,935)	**(26,458)**
Net cash provided by operating activities	**6,889**	17,227	**61,410**
Cash flows from investing activities:			
Increase (decrease) in time deposits	**(5,965)**	(660)	**(53,173)**
Decrease (increase) in time deposits	**710**	925	**6,329**
Payment for acquisition of marketable securities	**(13,716)**	(9,100)	**(122,268)**
Proceeds from sale of marketable securities	**13,516**	9,300	**120,485**
Payment for purchase of investments in securities	**(250)**	(2)	**(2,229)**
Proceeds from sale or redemption of investments in securities	**754**	1	**6,721**
Increase (decrease) in money deposited	**(1,204)**	(1,001)	**(10,733)**
Decrease (increase) in money deposited	**1,101**	901	**9,815**
Payment for purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 12)	**(5,612)**	–	**(50,027)**
Payment for acquisition of investment securities in subsidiaries	**(110)**	–	**(981)**
Payment for acquisition of investments of capital in subsidiaries	**(252)**	(1,216)	**(2,246)**
Investments in loans	**(279)**	(53)	**(2,487)**
Collection of loans	**118**	83	**1,052**
Payment for purchase of property, plant and equipment	**(6,724)**	(9,346)	**(59,939)**
Proceeds from sale of property, plant and equipment	**2,343**	23	**20,886**
Payment for purchase of intangibles	**(225)**	(216)	**(2,006)**
Other	**(221)**	(430)	**(1,970)**
Net cash (used in) investing activities	**(16,016)**	(10,791)	**(142,771)**

(continued)

Consolidated Statements of Cash Flows

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
KYOEI STEEL, LTD. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	**2017**	2016	**2017**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**10,975**	2,096	**97,834**
Proceeds from long-term debt	**–**	339	**–**
Repayment of long-term debt	**(2,520)**	(2,086)	**(22,464)**
Repayment of installment payables	**(7)**	(2)	**(62)**
Payment for purchase of treasury stock	**(1)**	(339)	**(9)**
Proceeds from sale of treasury stock	**110**	13	**980**
Cash dividends paid	**(1,955)**	(1,520)	**(17,427)**
Dividends paid to non-controlling shareholders	**(30)**	(23)	**(267)**
Net cash provided by (used in) financing activities	**¥ 6,572**	¥ (1,522)	**$ 58,585**
Effect of exchange rate changes on cash and cash equivalents	**¥ (301)**	¥ (300)	**$ (2,683)**
Net increase (decrease) in cash and cash equivalents	**(2,856)**	4,614	**(25,459)**
Cash and cash equivalents at the beginning of the period	**39,596**	34,982	**352,968**
Cash and cash equivalents at the end of the period (Note 12)	**¥ 36,740**	¥ 39,596	**$ 327,509**

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The significant portions of the accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with International Financial Reporting Standards with adjustments for the specified following four items as applicable.
(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit and loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.18 to $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the parent company and all the subsidiaries over which it exerts substantial control either through majority ownership of voting stock or by other means. As a result, the accompanying consolidated financial statements for the years ended March 31, 2017 and 2016 include the accounts of the Company and its 12 and 9 subsidiaries respectively. Among these subsidiaries, KSA is included in the scope of consolidation following the foundation during the current fiscal year. And VS and MPI also are included in the scope of consolidation following the acquisition of equity during the current fiscal year. All significant intercompany balances and transactions have been eliminated in consolidation.

The companies VKS, KSVC, KSA, VS and MPI, which were included in consolidation, have fiscal years that end on December 31. These subsidiaries do not prepare for consolidation purposes statements with periods that correspond to the fiscal year of the Company, which ends on March 31. For these consolidated subsidiaries, if there were significant transactions between their fiscal year-end and the Company's year-end, necessary adjustments were made to reflect these transactions in the accompanying consolidated financial statements.

Investments in affiliates (other than the subsidiaries as defined above) are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

(b) Foreign currency translation

Monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at each balance sheet date. The resulting gain or loss is recognized as other income or expense.

Assets and liabilities of the overseas consolidated subsidiaries are translated at the exchange rates in effect at each balance sheet date, and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments are presented as foreign currency translation adjustments and non-controlling interests in the consolidated financial statements.

(c) Cash and cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of change in value. Cash equivalents include time deposits and certificates of deposit which mature or become due within three months from the date of acquisition.

(d) Securities

Marketable securities classified as available for sale securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving average method.

Nonmarketable securities classified as available for sale securities are carried at cost determined by the moving average method. If the market value of marketable securities classified as available for sale securities declines significantly, the securities are written down to fair value, thus establishing a new cost basis.

(e) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments."

(f) Inventories

Rolls are stated at cost determined by the specific identification method. Other inventories are stated mainly at cost determined by the average method. Regarding balance sheet values, this method is designed to reduce book value when the contribution of inventories to profitability declines.

(g) Depreciation and amortization

(1) Property, plant and equipment (excluding lease assets)

Depreciation of property, plant and equipment is calculated principally by the straight-line method.

Estimated useful lives of the property, plant and equipment are summarized as follows:

Buildings and structures:	31 years
Machinery and equipment:	14 years

(2) Intangible assets (excluding lease assets)

Most intangible assets are depreciated by the straight-line method. Expenditures related to computer software intended for internal use are amortized over the useful life of the respective asset (in general, 5 years).

(3) Lease assets

Lease assets related to finance lease transactions that do not transfer ownership of the leased assets are depreciated by the straight-line method with the lease term as the useful life and a residual value of zero.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. The amount of the provision is based on historical experience with such write-offs plus an estimate of specific doubtful accounts determined by a review of the collectability of the individual receivables.

(i) Accrued employees' bonuses

To provide for the payment of bonuses to employees, the projected amount of such bonuses is set aside as a provision.

(j) Accrued directors' bonuses

To provide for the payment of bonuses to directors, the projected amount of such bonuses is set aside as a provision.

(k) Accrued directors' severance and retirement benefits

To provide for future payments of retirement benefits to directors, an estimated amount as of the balance sheet date based on internal regulations is reserved.

(l) Provision for loss on business liquidation

Provision for loss on business liquidation is provided for estimated losses arising from the business liquidation.

(m) Accounting policies for severance and retirement benefits

(1) The method of attributing expected benefit to periods

In calculating retirement benefit obligation, estimated retirement benefits are attributed to the period up to the end of the consolidated fiscal year using a benefit formula basis.

(2) Recognition of actuarial differences and past service costs

Actuarial differences are amortized on a straight-line basis over a fixed number of years (10 years) within the average remaining service period of employees at the time of occurrence in each consolidated fiscal year beginning the fiscal year following the year they occur. Past service costs are amortized on a straight-line basis over a fixed number of years (10 years) within the average service period of employees at the time of occurrence.

(3) Simplified method applied by small companies, etc.

Some consolidated subsidiaries apply a simplified method in calculating liabilities for retirement benefits and retirement benefit costs. An amount payable assuming the voluntary retirement of all employees at the fiscal year-end is considered to be equal to the retirement benefit obligation for a lump-sum severance pay plan, and the actual obligation in the latest pension finance calculation is considered to be equal to the retirement benefit obligation for the corporate pension plan.

(n) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which are expected to be in effect when the differences are expected to be recovered or settled.

(o) Significant hedge accounting

(1) Method of hedge accounting

The Company and its consolidated subsidiaries use mainly deferred hedging. Hedges that meet the conditions for the special treatment of interest rate swaps and the designation of forward exchange contracts and currency swaps are accounted for separately.

(2) Hedging instruments and hedged items

a. Hedge instruments: Interest rate swaps
Hedge items: Interest rates

b. Hedge instruments: Forward exchange contracts, currency swaps
Hedge items: Foreign monetary assets and liabilities

(3) Hedging policy

Interest rate swap agreements are entered into to manage the risk associated with interest rate fluctuations on borrowings. Forward foreign exchange contracts and currency swaps are entered into in order to reduce the risk associated with exchange rate fluctuations for transactions denominated in foreign currencies. Hedged items are identified separately with each agreement.

(4) Evaluating hedge effectiveness

Hedge effectiveness is evaluated by comparing the hedge instrument transaction value with the hedged item transaction value for each transaction. However, when interest rate swaps meet the conditions for special treatment, an assessment of effectiveness is omitted. Also, for forward exchange contracts and currency swaps that meet conditions for appropriate treatment, important terms, etc., related to the hedging instrument and hedged item are the same and the cash flow is fixed, so an assessment of effectiveness is omitted.

(p) Goodwill

Goodwill is depreciated by the straight-line method within 20 years. However, goodwill is amortized in a lump sum when incurred in cases in which the value is immaterial.

(q) Cash in consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, bank deposits that are able to be withdrawn on demand and short-term investments with original maturities of three months or less and which represent only a minor risk of fluctuation in value.

3 CHANGES IN METHODS OF ACCOUNTING

Application of the Revised Accounting Standard for Business Combinations, Etc.

Effective the year ended March 31, 2016, the Company and its domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan [ASBJ] Statement No. 21 of September 13, 2013, hereinafter referred to as the Business Combinations Accounting Standard), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 of September 13, 2013, hereinafter referred to as the Consolidated Financial Statements Accounting Standard), and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 of September 13, 2013, hereinafter referred to as the Business Divestitures Accounting Standard). As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income, and the term “non-controlling interests” is used instead of “minority interests.” Certain amounts in the prior year comparative information were reclassified to conform to the changes in the presentation for the year ended March 31, 2016.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning for the fiscal year ended March 31, 2016 prospectively.

These changes had no effect on the consolidated financial statements of the year ended March 31, 2016.

4 ADDITIONAL INFORMATION

Revised Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the year ended March 31, 2017, the Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets"(ASBJ Guidance No. 26, March 28, 2016).

Employee stock ownership plan (ESOP) by using a trust

(1) Summary

The Group is introducing an Employee Stock Ownership Support Trust ESOP (hereinafter, referred to as the “ESOP Trust”), an employee incentive plan which aims to enhance morale by giving Group employees incentives to improve the mid- to long-term corporate value and revitalize employee stock ownership.

The ESOP Trust is a scheme based on Employee Stock Ownership Plans (ESOP) in the U.S. that is designed to conform to the Laws of Japan. By combining employee stock ownership with a trust, it will be possible for the trust fund to secure stock to be purchased through the employees stock ownership in the future. Moreover, the scheme will promote the expansion of the employee benefits system and increase employee motivation.

The Company will establish a trust in which employees that join the Kyoei Group employee stock ownership (hereinafter, the “Stock Ownership Association”) and who satisfy certain requirements are beneficiaries. The Trust will acquire during a predetermined acquisition period the quantity of company stock the Stock Ownership Association is expected to acquire during the trust period. Subsequently, the Trust will sell company stock to the Stock Ownership Association on a fixed day each month. If there is any trust income due to a stock price increase at the time the trust terminates, the money will be divided among beneficiary employees according to the quantity of stock acquired during the term. The Company will collectively settle with financial institutions based on guarantee provisions provided for in loan agreements with liability limitation riders, which means there will be no additional burden on employees if a loss arises due to a stock price decrease resulting in trust property debt.

(2) Stock remaining in the trust

The book value (excluding incidental expenses) of the Company stock held by the ESOP Trust is included as “treasury stock” in net assets in the consolidated balance sheets. The ESOP Trust held 112 thousand shares and 169 thousand shares of the Company stock with a book value of 216 million yen ($1,925 thousand) and 326 million yen as of the end of March 2017 and 2016, respectively.

(3) Book value of loans recorded by the gross price method

The book value of loans was 212 million yen ($1,890 thousand) and 328 million yen at the end of March 2017 and 2016, respectively.

5 INVENTORIES

Inventories at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Merchandise	**¥ 288**	¥ 86	**$ 2,567**
Finished goods	**10,298**	8,895	**91,799**
Semi-finished goods	**4,131**	5,192	**36,825**
Work-in-process	**856**	755	**7,631**
Raw materials	**4,772**	2,158	**42,539**
Supplies	**5,785**	4,597	**51,569**
Rolls	**3,107**	2,936	**27,696**
Total	**¥ 29,237**	¥ 24,619	**$ 260,626**

6 APPLICATION OF THE LAND REVALUATION LAW

Land used for business purposes has been revalued in accordance with the "Act on Revaluation of Land" (Law 34 of 1998, promulgated on March 31, 1998). The portion of the revaluation gain equivalent to the corporation tax and other taxes with tax bases linked to corporate profits has been presented under liabilities as "Deferred tax liabilities on revaluation," while the net sum after this transfer to the deferred tax liability account is presented under net assets as "Revaluation reserve for land."

Revaluation method
The land value has been calculated as stipulated in Article 2.4 of the "Regulations for Applying the Land Revaluation Law" (Government Ordinance No. 119 of 1998, promulgated on March 31, 1998) by making rational adjustments to the price calculated by the method publicly announced for the calculation of the tax base under the Land Value Tax.

Revaluation date: March 31, 2000

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Difference between the market value at end of year and the book value after revaluation of the land revalued	**¥ (5,874)**	¥ (5,851)	**$ (52,362)**

7 BANK LOANS

Short-term loans consisted of unsecured loans payable from banks at the weighted average interest rate of 2.91% at March 31, 2017 and 3.49% at March 31, 2016.

Long-term debt from banks at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Long-term debt from banks at average interest rates of 1.33% and 1.85% for current and noncurrent portions, respectively	**¥16,468**	¥19,621	**$146,800**
Less current portion	**(3,041)**	(2,585)	**(27,108)**
Long-term debt from banks	**¥13,427**	¥17,036	**$119,692**

The annual maturities of long-term debt from banks as of March 31, 2017 are summarized as follows:

Year ended March 31,	Millions of yen	Thousands of U.S.dollars
2018	**¥ 3,041**	**$ 27,108**
2019	**3,253**	**28,998**
2020	**3,041**	**27,108**
2021	**3,041**	**27,108**
2022	**2,801**	**24,969**
Thereafter	**1,291**	**11,509**
Total	**¥ 16,468**	**$ 146,800**

The annual maturities of long-term debt from banks as of March 31, 2016 are summarized as follows:

Year ended March 31,	Millions of yen
2017	¥ 2,585
2018	3,122
2019	3,450
2020	3,122
2021	3,122
Thereafter	4,220
Total	¥ 19,621

8 R&D EXPENSES

R&D expenses included in selling, general and administrative expenses for the years ended March 31, 2017 and 2016 amounted to ¥119 million ($1,061 thousand) and ¥104 million, respectively.

9 NET ASSETS

Under the Japanese Corporate Law ("the Law") and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law and regulations.

At the Board Directors' meeting held on April 28, 2017, the Board approved cash dividends amounting to ¥869 million ($7,746 thousand). The appropriation had not been accrued in the consolidated financial statements as of March 31, 2017. At the Board Directors' meeting held on April 28, 2016, the Board approved cash dividends amounting to ¥1,521 million. The appropriation had not been accrued in the consolidated financial statements as of March 31, 2016.

10 INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 30.8% for the year ended March 31, 2017 and 33.0% for the year ended March 31, 2016.

The major components of deferred tax assets and liabilities as of March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Deferred tax assets:			
Impairment loss	**¥ 556**	¥ 1,137	**$ 4,956**
Accrued enterprise taxes	**48**	124	**428**
Allowance for doubtful accounts	**32**	54	**285**
Accrued bonuses	**216**	220	**1,926**
Provision for loss on business liquidation	**–**	34	**–**
Accrued directors’ retirement benefits	**43**	52	**383**
Tax carryforward	**391**	386	**3,486**
Other	**862**	989	**7,684**
Gross deferred tax assets	**2,148**	2,996	**19,148**
Valuation allowance	**(1,281)**	(1,204)	**(11,419)**
Total deferred tax assets	**867**	1,792	**7,729**
Deferred tax liabilities:			
Valuation difference on available for sale securities	**(915)**	(631)	**(8,157)**
Retained earnings appropriated for tax deductible reserves	**(24)**	(26)	**(214)**
Reserve for special depreciation for tax purposes	**(3)**	(4)	**(27)**
Net defined benefit asset	**(54)**	(39)	**(481)**
Other	**(58)**	(24)	**(517)**
Total deferred tax liabilities	**¥ (1,054)**	¥ (724)	**$ (9,396)**
Net deferred tax assets	**¥ (187)**	¥ 1,068	**$ (1,667)**

Net deferred tax liabilities at March 31, 2017 and 2016 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Deferred tax assets (current)	**¥ 410**	¥ 538	**$ 3,655**
Deferred tax assets (noncurrent)	**323**	615	**2,879**
Deferred tax liabilities (current)	**(0)**	(3)	**(0)**
Deferred tax liabilities (noncurrent)	**(920)**	(82)	**(8,201)**
Net deferred tax assets	**¥ (187)**	¥ 1,068	**$ (1,667)**

The major components of the reconciliation between the statutory tax rate and the effective tax rate as of March 31, 2017 is as follows:

	2017
Statutory tax rate	30.8 %
Nondeductible expenses, including entertainment expenses	1.0
Dividends and other income not taxable for income tax purposes	(0.4)
Inhabitants per capita taxes	0.4
Increase in valuation allowance	1.0
Other	0.4
Effective tax rates	33.2 %

The note was omitted because the difference between the statutory tax rate and the effective tax rate was equal to or less than 5% of the statutory tax rate as of March 31, 2016.

On March 29, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed from 32.2% to 30.8% and 30.6%, respectively, as of March 31, 2016. Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥31 million as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥55 million, the valuation difference on available for sale securities increased by ¥21 million, and the remeasurement of defined benefit plans increased by ¥4 million. In addition, deferred tax liabilities for revaluation as of March 31, 2016 decreased by ¥138 million, and the revaluation reserve for land increased by the same amount.

11 CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The following tables present information related to the consolidated statements of changes in net assets for the year ended March 31, 2017 and March 31, 2016 respectively:

(a) Number of shares issued

For the year ended March 31, 2017

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	**44,898,730**	**–**	**–**	**44,898,730**

For the year ended March 31, 2016

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	44,898,730	–	–	44,898,730

(b) Treasury stock

For the year ended March 31, 2017

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	**1,608,855**	**131**	**57,200**	**1,551,786**

1 Treasury stock increased by 131 shares due to the repurchase of shares less of than one unit.
2 Treasury stock decreased by 57,200 due to the sale by the ESOP Trust.
3 Treasury stock included 112,200 shares of the Company owned by the ESOP Trust as of March 31, 2017.

For the year ended March 31, 2016

Type of shares	Balance at beginning of year	Increase	Decrease	Balance at end of year
Common stock (number of shares)	1,439,389	176,066	6,600	1,608,855

4 Treasury stock increased by 66 shares due to the repurchase of shares of less than one unit.
5 Treasury stock increased by 176,000 shares due to the purchase by the ESOP Trust.
6 Treasury stock decreased by 6,600 due to the sale by the ESOP Trust.
7 Treasury stock included 169,400 shares of the Company owned by the ESOP Trust as of March 31, 2016.

(c) Cash dividends

Amount of dividend payments

For the year ended March 31, 2017

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
April 28, 2016 (Board of Directors)	**Common stock**	**¥ 1,521**	**$ 13,559**	**¥ 35**	**$ 0.31**	**March 31, 2016**	**June 7, 2016**

(Note) Total amount of dividends included ¥6 million ($53 thousand) for the treasury stock owned by the ESOP Trust.

Date of approval	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Record date	Effective date
October 31, 2016 (Board of Directors)	**Common stock**	**¥ 434**	**$ 3,869**	**¥ 10**	**$ 0.09**	**September 30, 2016**	**December 8, 2016**

(Note) Total amount of dividends included ¥1 million ($9 thousand) for the treasury stock owned by the ESOP Trust.

For the year ended March 31, 2016

Date of approval	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
May 19, 2015 (Board of Directors)	Common stock	¥ 1,086	¥ 25	March 31, 2015	June 8, 2015
October 30, 2015 (Board of Directors)	Common stock	¥ 435	¥ 10	September 30, 2015	December 8, 2015

12 SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation of cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents at March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Cash and time deposits	**¥ 39,446**	¥ 14,739	**$ 351,631**
Time deposits with a maturity of more than three months	**(6,106)**	(343)	**(54,430)**
Negotiable certificates of deposit with maturities of three months or less from the acquisition date	**3,400**	25,200	**30,308**
Cash and cash equivalents	**¥ 36,740**	¥ 39,596	**$ 327,509**

Reconciliation of payment for purchase of investments in subsidiaries

The following table represents a reconciliation of assets and liabilities of the Group’s new consolidated subsidiaries, VS and MPI, at March 31, 2017:

	Millions of yen	Thousands of U.S.dollars
	2017	**2017**
Current assets	**¥ 3,440**	**$ 30,665**
Fixed assets	**3,765**	**33,562**
Goodwill	**375**	**3,343**
Current liabilities	**(1,377)**	**(12,275)**
Fixed liabilities	**(495)**	**(4,412)**
Acquisition cost	**5,708**	**50,883**

The amount of goodwill and the amount of assets and liabilities resulting from the business combination are provisional estimates based on the information available because an allocation of acquisition costs had not been completed.

13 SEVERANCE AND RETIREMENT BENEFITS

(1) The Company and its consolidated subsidiaries have defined benefit plans, lump-sum benefit plans and defined contribution pension plans

Some of the Company's subsidiaries have instituted defined benefit plans or lump-sum benefit plans and calculate defined benefit liabilities and periodic pension cost by the simplified method.

(2) Defined benefit plan

(a) Movement in retirement benefit obligations, except those described in (c)

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Balance at April 1	**¥ 4,737**	¥ 4,071	**$ 42,227**
Service cost	**292**	254	**2,603**
Interest cost	**16**	41	**143**
Actuarial loss	**(111)**	593	**(989)**
Benefits paid	**(213)**	(222)	**(1,899)**
Balance at March 31	**¥ 4,721**	¥ 4,737	**$ 42,085**

(b) Movements in plan assets, except those described in (c)

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Balance at April 1	**¥ 4,772**	¥ 4,922	**$ 42,538**
Expected return on plan assets	**73**	74	**651**
Actuarial gain (loss)	**1**	(188)	**9**
Contributions paid by the employer	**189**	186	**1,685**
Benefits paid	**(213)**	(222)	**(1,899)**
Balance at March 31	**¥ 4,822**	¥ 4,772	**$ 42,984**

(c) Movement in liability for retirement benefits by applying the simplified method

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Balance at April 1	**¥ 16**	¥ (59)	**$ 143**
Retirement benefit cost	**86**	169	**767**
Benefits paid	**(22)**	(18)	**(196)**
Other	**(1)**	0	**(9)**
Contributions to benefit plans	**(77)**	(76)	**(686)**
Balance at March 31	**¥ 2**	¥ 16	**$ 19**

(d) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Funded retirement benefit obligations	**¥ 5,904**	¥ 5,769	**$ 52,630**
Plan assets	**(6,065)**	(5,960)	**(54,065)**
	(161)	(191)	**(1,435)**
Unfunded retirement benefit obligations	**62**	171	**552**
Total net liability (asset) for retirement benefits at March 31	**¥ (99)**	¥ (20)	**$ (883)**

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Net defined benefit asset	**¥ (176)**	¥ (108)	**$ (1,569)**
Net defined benefit liability	**77**	88	**686**
Total net liability (asset) for retirement benefits at March 31	**¥ (99)**	¥ (20)	**$ (883)**

(e) Retirement benefit costs

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Service cost	**¥ 292**	¥ 254	**$ 2,603**
Interest cost	**16**	41	**143**
Expected return on plan assets	**(73)**	(74)	**(651)**
Net actuarial loss (gain) amortization	**104**	(45)	**927**
Past service costs amortization	**16**	34	**143**
Retirement benefit cost applying the simplified method	**86**	169	**767**
Total retirement benefit costs for the year ended March 31	**¥ 441**	¥ 379	**$ 3,932**

(f) Remeasurement of defined benefit plans

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Prior service cost	**¥ 16**	¥ 33	**$ 143**
Actuarial gain or loss	**216**	(826)	**1,925**
Total balance at March 31	**¥ 232**	¥ (793)	**$ 2,068**

(g) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Unrecognized prior service cost	**¥ (16)**	¥ (33)	**$ (143)**
Unrecognized actuarial gain or loss	**20**	(196)	**178**
Total balance at March 31	**¥ 4**	¥ (229)	**$ 35**

(h) Plan assets

❶ Plan assets comprise:

	2017	2016
Bonds	**56%**	42%
Stock	**25**	39
Life insurance company general accounts	**16**	16
Other	**3**	3
Total	**100%**	100%

❷ Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(i) Actuarial assumptions

The principal actuarial assumptions were as follows:

	2017	2016
Discount rate	**0.5%**	0.3%
Expected long-term rate of return	**1.5%**	1.5%
Salary increase rate	**2.3%**	2.3%

(3) Defined contribution scheme

The required contribution to the Company's defined contribution plan was ¥25 million ($ 223 thousand) for the year ended March 31, 2017 and ¥24 million for the year ended March 31, 2016.

14 AMOUNTS PER SHARE

	yen		U.S.dollars
Years ended March 31	**2017**	2016	**2017**
Net income	**¥ 110.41**	¥ 194.94	**$ 0.98**
As of March 31	**2017**	2016	**2017**
Net assets	**¥ 3,192.02**	¥ 3,115.86	**$ 28.45**

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year.

Net assets per share is based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the balance sheet date.

The calculation of basic net assets per share was determined as follows:

	Millions of yen		Thousands of U.S.dollars
Year ended March 31	**2017**	2016	**2017**
Basic net assets per share:			
Total net assets on the balance sheets	**¥ 146,663**	¥ 143,090	**$ 1,307,390**
Deduction on total net assets	**¥ (8,298)**	¥ (8,204)	**$ (73,970)**
Non-controlling interests	**¥ (8,298)**	¥ (8,204)	**$ (73,970)**
Amount attributable to shareholders of common stock	**¥ 138,365**	¥ 134,886	**$ 1,233,420**
Number of shares outstanding	**44,899**	44,899	**–**
Number of treasury shares	**(1,552)**	(1,609)	**–**
Number of shares at fiscal year end used in calculation of net assets per share	**43,347 thousand share**	43,290 thousand share	**–**

The calculation of basic net income per share was determined as follows:

	Millions of yen		Thousands of U.S.dollars
Year ended March 31	**2017**	2016	**2017**
Basic net income per share:			
Profit attributable to owners of parents	**¥ 4,783**	¥ 8,467	**$ 42,637**
Amount attributable to shareholders of common stock	**¥ 4,783**	¥ 8,467	**$ 42,637**
Weighted average number of shares outstanding	**43,319 thousand share**	43,435 thousand share	**–**

Company stock held by the ESOP Trust that is included in treasury stock in shareholders' equity is treated as treasury stock and is excluded from the average number of shares used to calculate net income per share. For the calculation of net assets per share, this ESOP Trust stock is included in treasury stock, which is deducted from the number of shares outstanding at the end of the fiscal year.

For the calculation of net income per share, the average number of shares of treasury stock that was held by the ESOP Trust and therefore excluded was 140 thousand for the year ended March 31, 2017 and 24 thousand for the year ended March 31, 2016. For the calculation of net assets per share, the number of shares of treasury stock that was held by the ESOP Trust and therefore excluded was 112 thousand for the year ended March 31, 2017 and 169 thousand for the year ended March 31, 2016.

15 LEASES

The Group has entered into finance lease contracts which do not transfer the ownership of the leased assets. The main assets of these finance leases are oxygen supply facilities used for the Overseas Steel Business and classified as tools, furniture and fixtures.

The Group also has entered into non-cancellable operating lease contracts. Future lease payments subsequent to March 31, 2017 and 2016 under non-cancellable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
As of March 31	**2017**	2016	**2017**
Due within one year	**¥ 33**	¥ 7	**$ 294**
Due after one year	**1,182**	470	**10,537**
Total	**¥ 1,215**	¥ 477	**$ 10,831**

16 FINANCIAL INSTRUMENTS

Additional information – Disclosure of fair value of financial instruments

1. Qualitative information on financial instruments

(a) Policies for using financial instruments

Surplus capital is managed using financial instruments that carry little or no risk, and working capital is procured from bank loans. The Group uses derivatives to reduce the risks associated with exchange rate fluctuations for transactions denominated in foreign currencies and interest rate fluctuations on borrowings and, as a matter of policy, does not use derivatives for speculative purposes.

(b) Details of financial instruments used, the exposure to risk and policies and processes for managing risk

Notes and accounts receivable expose the Group to customer credit risk. To manage this risk, the Group has established internal procedures for receivables, manages the amounts and settlement dates and monitors the financial condition of the counterparties.

Bonds and negotiable deposits expose the Group to the credit risk of the issuing company. To manage this risk, the Group uses only short-term financial instruments issued by institutions of high credit rating. The risk associated with market price fluctuation of these financial instruments is extraordinarily low.

Investments in securities expose the Group to the risk of changes in market prices. However, the issuing companies are mostly related to the Group’s business, and the market price is reported to the Board of Directors’ periodically.

Almost all notes and accounts payable are due within four months.

Short-term loans are procured mainly for operating capital and long-term loans (mainly ten years) are procured mainly for foreign capital investment. Foreign currency denominated trade assets and liabilities expose the Group to the risk associated with exchange rate fluctuation. To reduce the risk, the Group uses forward foreign exchange contracts and currency swaps for each contract as hedge instruments. Loans with variable rates expose the Group to the risk of interest rate fluctuation. The Group uses interest rate swaps for each business contract to hedge this risk.

Hedged instruments are recognized by individual contract. Hedge effectiveness is tested for each transaction, but not when the interest rate swap contract meets certain hedging criteria.

The Group enters into derivative transactions only with financial institutions of high credit rating and which the Group believes there is almost no credit risk. The derivative transactions are executed in accordance with internal management regulations.

While operating payables and loans payable are exposed to liquidity risk, the Group manages the risk by producing cash flow plans on a monthly basis.

(c) Supplemental information on fair values

The fair value of financial instruments is estimated by reasonable methods when market price is not available. To estimate such fair value, certain assumptions must be made, and the fair value may be determined differently if other assumptions are made.

2. Fair values of financial instruments

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2017 and 2016 were as follows:

Year ended March 31, 2017	Millions of yen			Thousands of U.S.dollars		
	Carrying amount shown in balance sheet	Fair value	Difference	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥ 39,446	¥ 39,446	¥ –	$ 351,631	$ 351,631	$ –
Notes and accounts receivable	35,584	35,584	–	317,204	317,204	–
Marketable securities	8,400	8,400	–	74,880	74,880	–
Investments in securities						
Available for sale securities	6,740	6,740	–	60,082	60,082	–
Investments in long-term loans receivable	407	407	–	3,628	3,628	–
Other noncurrent assets						
Long-term deposits	35	35	0	312	312	0
Notes and accounts payable	(11,967)	(11,967)	–	(106,677)	(106,677)	–
Short-term loans	(24,388)	(24,388)	–	(217,401)	(217,401)	–
Long-term debt						
Due within one year	(3,041)	(3,056)	15	(27,108)	(27,242)	134
Due after one year	(13,427)	(13,495)	68	(119,692)	(120,298)	606
Lease obligations	(558)	(579)	21	(4,974)	(5,161)	187
Derivatives	93	93	–	829	829	–

(Note) The amount of "Lease obligations" shows the sum of lease obligation amounts included in other current liabilities and other long-term liabilities.

Year ended March 31, 2016	Millions of yen		
	Carrying amount shown in balance sheet	Fair value	Difference
Cash and time deposits	¥ 14,739	¥ 14,739	¥ –
Notes and accounts receivable	31,934	31,934	–
Marketable securities	30,000	30,000	–
Investments in securities			
Available for sale securities	5,567	5,567	–
Investments in long-term loans receivable	398	398	–
Other noncurrent assets			
Long-term deposits	190	190	0
Notes and accounts payable	(9,251)	(9,251)	–
Short-term loans	(13,525)	(13,525)	–
Long-term debt			
Due within one year	(2,585)	(2,631)	46
Due after one year	(17,036)	(17,339)	303
Lease obligations	(3)	(3)	0
Derivatives	(26)	(26)	–

(Note) "Lease obligations", which was omitted in the previous fiscal year, is separately presented in the current fiscal year because it became material. The amount shows the sum of lease obligation amounts included in other current liabilities and other long-term liabilities.

Calculation method for market values of financial instruments and securities.

(a) Cash and time deposits, Notes and accounts receivable and Marketable securities

These items are recorded using book values because market values approximate book values as a result of their short term maturities.

(b) Investments in securities

The fair values of securities are determined using the quoted price on the stock exchange.

Investments in securities are classified as available for sale securities and information on securities classified by the purpose of holding are shown in Note 17, "Securities."

(c) Investments in long-term loans receivable
The fair value of long-term loans receivable is calculated by discounting total principal and interest receivable to the present value using a discount rate equal to the rate that would be charged on a similar new loan.

(d) Long-term deposits
The fair value of long-term deposits is calculated by discounting total principal and interest receivable to the present value using a discount rate equal to the rate that would be charged if the deposits were newly placed.

(e) Notes and accounts payable and Short-term loans
These items are recorded using book values because the market values approximate the book values as a result of their short term maturities.

(f) Long-term debt
The fair value of long-term debt is calculated by discounting the total principal and interest payments to the present value using a discount rate equal to the rate that would be charged on similar new loans. Some floating rate loans are subject to the exceptional method for interest rate swaps. Such interest rate swaps are handled together with the total principal and interest payments and are calculated to the present value using a reasonable estimate of the discount rate that would be applied for the same kind of loan.

(g) Lease obligations
The fair value of lease obligations is determined by discounting the aggregated value of the principal and interest using an assumed interest rate for the same type of lease contracts newly made.

(h) Derivative transactions
The fair value of a derivative is stated using the quoted price obtained from the relevant financial institution.

17 SECURITIES

(a) Available for sale securities with determinable market values

As of March 31, 2017	Millions of yen			Thousands of U.S.dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:						
Stock	**¥ 1,428**	**¥ 4,884**	**¥ 3,456**	**$ 12,730**	**$ 43,537**	**$ 30,807**
Bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Securities whose carrying value does not exceed acquisition costs:						
Stock	**2,430**	**1,856**	**(574)**	**21,662**	**16,545**	**(5,117)**
Bonds	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Total	**¥ 3,858**	**¥ 6,740**	**¥ 2,882**	**$ 34,392**	**$ 60,082**	**$ 25,690**

As of March 31, 2016	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds acquisition costs:			
Stock	¥ 1,292	¥ 3,889	¥ 2,597
Bonds	–	–	–
Other	–	–	–
Securities whose carrying value does not exceed acquisition costs:			
Stock	2,317	1,678	(639)
Bonds	–	–	–
Other	–	–	–
Total	¥ 3,609	¥ 5,567	¥ 1,958

(b) Securities without determinable market values

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Investment in securities:			
Unlisted securities (available for sale securities)	**¥ 693**	¥ 331	**$ 6,178**
Unlisted securities (unconsolidated subsidiary and affiliated company)	**¥ 3,683**	¥ 4,772	**$ 32,831**
Investments in capital (unconsolidated subsidiaries and affiliated company)	**¥ 2,414**	¥ 2,162	**$ 21,519**

(c) Derivative transactions

(1) Derivative transactions for which hedge accounting is not applied

Currency related

Year ended March 31, 2017

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)	Contract amount (Thousands of U.S.dollars)	Over one year (Thousands of U.S.dollars)	Fair value (Thousands of U.S. dollars)	Valuation gain (loss) (Thousands of U.S. dollars)
Non-market transactions	**Foreign exchange forward contracts Buying U.S. dollars**	**¥ 68**	**¥ –**	**¥ (0)**	**¥ (0)**	**$ 606**	**$ –**	**$ (0)**	**$ (0)**
Non-market transactions	**Foreign exchange forward contracts Selling U.S. dollars**	**896**	**–**	**5**	**5**	**7,987**	**–**	**45**	**45**

* Fair values are based on quotes obtained from financial institutions, etc.

Year ended March 31, 2016

	Type of derivative	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)	Valuation gain (loss) (Millions of yen)
Nonmarket transactions	Foreign exchange forward contracts Buying U.S. dollars	¥ 245	¥ –	¥ (8)	¥ (8)
Nonmarket transactions	Foreign exchange forward contracts Selling U.S. dollars	1,650	–	(18)	(18)

* Fair values are based on quotes obtained from financial institutions, etc.

(2) Derivative transactions for which hedge accounting is applied

Interest rate related

Year ended March 31, 2017

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Deferred hedge treatment	**Interest rate swap transaction receive floating, pay fixed**	**Long-term debt**	**¥ 12,644**	**¥ 10,393**	**¥ 88**

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Thousands of U.S. dollars)	Amount of contracts over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Deferred hedge treatment	**Interest rate swap transaction receive floating, pay fixed**	**Long-term debt**	**$ 112,712**	**$ 92,646**	**$ 784**

* Fair values are based on quotes obtained from financial institutions, etc.

Year ended March 31, 2016

Hedge accounting method	Transactions type	Main hedge item	Contract amount (Millions of yen)	Amount of contracts over 1 year (Millions of yen)	Fair value (Millions of yen)
Special treatment of interest rate swaps	Interest rate swap transaction receive floating, pay fixed	Long-term debt	¥ 8,172	¥ 6,915	*

* Fair values of interest rate swaps to which exceptional accounting is applied are included in those of the corresponding long-term loans payable. As such, values are accounted for together with hedged long-term loans payable.

18 IMPAIRMENT LOSS ON FIXED ASSETS

In the year ended March 31, 2016, the Company reported the following loss on impairment of fixed assets:

Use	Place	Type of asset	Millions of yen
Idle properties (Site for the new plant)	Ninh Binh Province,Vietnam	Construction in progress	**¥ 1,392**
Idle properties	Sanyo Onoda City, Yamaguchi	Buildings and structures	**9**
		Land	**0**
Total			**¥ 1,401**

The Group grouped their fixed assets based on division, and each idle asset was treated as separate property.

KSVC has temporarily suspended its plan to construct an integrated steelmaking and rolling factory. Initially, operations at this new factory were to begin in early 2016. Although the construction of this factory is still under consideration, the current uncertainty of the business environment makes it difficult to reach a decision to start construction. Consequently, the carrying amount of the fixed assets associated with the plan for this new factory were written down to the recoverable value and the amount of the decline recorded as an impairment loss. The company-owned houses for employees located in Daisen Town Saihaku County, Tottori are not expected to be used in the future and have been classified as idle properties. The carrying amounts were written down to the recoverable value and the amount of the decline recorded as impairment loss.

Recoverable value is principally measured at net sales value. However, the value of the idle properties in Ninh Binh Province, Vietnam is measured as ¥0 because of the difficulty in selling the properties, and the idle properties in Daisen Town Saihaku County, Tottori are measured based on comparable neighborhood sales.

19 LOSS ON LIQUIDATION OF BUSINESS

In the year ended March 31, 2017, according to the closing of the Hirakata Division (Osaka Mill), the Company recorded a loss on liquidation of business resulting in processing costs for waste of ¥70 million ($624 thousand), loss on disposal of inventories of ¥23 million ($205 thousand) and removable cost of plant equipments of ¥15 million ($134 thousand).

In the year ended March 31, 2016, according to the closing of the Hirakata Division (Osaka Mill), the Company recorded a loss on liquidation of business resulting in valuation loss of inventories of ¥29 million, removable cost of rental assets of ¥17 million and extra payment for early retirement of ¥16 million.

20 STATEMENTS OF COMPREHENSIVE INCOME

Comprehensive income for the years ended March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S.dollars
	2017	2016	**2017**
Valuation difference on available for sale securities:			
Current accrual	**¥ 924**	¥ (1,442)	**$ 8,237**
Reclassification adjustment	**–**	–	**–**
Before tax effect adjustment	**924**	(1,442)	**8,237**
Tax effect adjustment	**(284)**	495	**(2,532)**
Valuation difference on available for sale securities	**640**	(947)	**5,705**
Deferred gains or losses on hedges:			
Current accrual	**88**	–	**784**
Reclassification adjustment	**–**	–	**–**
Before tax effect adjustment	**88**	–	**784**
Tax effect adjustment	**–**	–	**–**
Deferred gains or losses on hedges	**88**	–	**784**
Revaluation reserve for land:			
Current accrual			
Tax effect adjustment	**–**	139	**–**
Revaluation reserve for land	**–**	139	**–**
Foreign currency translation adjustments:			
Current accrual	**(581)**	113	**(5,179)**
Reclassification adjustment	**–**	–	**–**
Before tax effect adjustment	**(581)**	113	**(5,179)**
Tax effect adjustment	**–**	–	**–**
Foreign currency translation adjustments	**(581)**	113	**(5,179)**
Remeasurement of defined benefit plans:			
Current accrual	**113**	(781)	**1,007**
Reclassification adjustment	**120**	(12)	**1,070**
Before tax effect adjustment	**233**	(793)	**2,077**
Tax effect adjustment	**(72)**	252	**(642)**
Remeasurement of defined benefit plans	**161**	(541)	**1,435**
Total	**¥ 308**	¥ (1,236)	**$ 2,745**

21 Business combinations

Transaction under common control

1. Outline of transaction

❶ Name and nature of the business of transaction

Name
Material Recycling Business (Industrial waste processing industry)
Business of the transaction
Processing of industrial waste and sales of recycled products by Kyoei Industrial Co., Ltd.

❷ Date of transaction: October 1, 2016

❸ Legal form of transaction

Transfer of business(Transferer: Kyoei Industrial Co., Ltd; Transferee: The Company)

❹ Corporate name after transaction

No change.

❺ Other items regarding outline of transaction

We are engaged in the Material Recycling Business, which we view as a part of our "Three pillars of growth strategy" along with our Domestic and Overseas Steel Business, and strengthening our competitiveness by reorganizing structures within the Group's related the Material Recycling Business is the objective of the transaction.

2. Outline of accounting treatment

The Company accounted for the transaction as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, revised on September 13, 2013) and the "Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestures" (ASBJ Guidance No.10, revised on September 13, 2013).

Business Combination through acquisition

On December 21, 2016, the Company, through Kyoei Steel America, a wholly-owned subsidiary (Delaware,USA), acquired 100% of the equity of BD Vinton LLC (Texas USA, presently Vinton steel LLC) and made BD Vinton LLC and its subsidiary wholly-owned subsidiaries of the Company.

1. Outline of business combination

❶ Name and nature of the business and acquired Company

Name of the acquired company: BD Vinton LLC and its subsidiary
Nature of the business: Manufacture and sale of steel products steel rebar, steel balls used by the mining industry as grinding materials

❷ Principle purpose of the business combination

By setting up a new business base in the United States, we aim to expand our global network and strive to diversify the risks of investments in businesses by which we strengthen the earnings base for our Overseas Steel Business.

❸ Date of transaction

December 31, 2016 (The deemed acquisition date)

❹ Legal form of transaction

Equity acquisition with cash consideration

❺ Corporate names after business combination

Vinton Steel LLC and Vinton Metal Processing LLC

❻ Ratio of voting acquired

Percentage of voting rights immediately before the business combination: 0%
Percentage of voting rights to be acquired on the effective date of the business combination:
100% (Including indirect ownership: 100%)
Percentage of voting rights subsequent to the equity acquisition:
100% (Including indirect ownership: 100%)

❼ Principal basis for determining the acquiring company

Due to the fact that KSA, which is a 100% wholly-owned subsidiary, of the Company has acquired 100% of the voting rights of the acquired company through an equity acquisition with cash consideration.

2. Period for which the operating results of the acquired company are included in the accompanying consolidated financial statement.

The effective date of the business combination is December 31, 2016. It is also as the deemed acquisition date. Since the fiscal year-end of the acquired company is December 31, none of the results of operations of the acquired company are included for the year ended March 31, 2017.

3. Acquisition cost of the acquired company and details of the type of consideration

Acquisition cost: $49 million
Details of the type of consideration: Cash

The acquisition cost of the acquired company is a provisional amount because the portion of acquisition cost had not been determined.

4. Major acquisition-related costs and nature

Fees for advisors: ¥293 million ($2,612 thousand)

5. Amount of goodwill, source of goodwill, method of amortization and amortization periods

❶ Amount of goodwill

¥375 million ($3,343 thousand)
As acquisition cost had not been determined and allocation of the acquisition cost had not been completed, this amount is a provisional estimate.

❷ Source of goodwill

Goodwill is a result of the excess earnings power expected from the future development of the business.

❸ Method of amortization and amortization period

Goodwill is amortized on a straight-line basis over the period in which the economic benefits are expected to be realized. The amortization period is to be determined upon allocation of the acquisition cost.

6. Major assets and liabilities received on the date of the business combination:

Current assets	¥ 3,440 million	($ 30,665 thousand)
Fixed assets	3,765	($ 33,562 thousand)
Total assets	7,205	($ 64,227 thousand)
Current liabilities	1,377	($ 12,275 thousand)
Fixed liabilities	495	($ 4,412 thousand)
Total liabilities	1,872	($ 16,687 thousand)

7. Proforma information on the effects on the consolidated statement of income assuming the business combination had been completed at the beginning of the current fiscal year and the calculation method

Sales:	¥10,190 million	($90,836 thousand)
Operating income (loss):	(470)	($ (4,190) thousand)
Profit attributable to owners of parent:	(570)	($ (5,081) thousand)

The proforma information on the effects on the consolidated statement of income was calculated as the differences between net sales and income assuming the business combination had been completed as of the beginning of the current fiscal year and net sales and income included in the consolidated statement of income. The proforma information is unaudited.

22 SEGMENT INFORMATION

(a) Overview of Reporting Segments

The Group’s reporting segments are segments for which separate financial information can be obtained and are subject to regular deliberation by the highest decision making body in order to make decisions on allocating management resources and assess financial performance.

The Group’s organization is based on the products or services dealt with and constitute three business segments: Domestic Steel Business, Overseas Steel Business and Material Recycling Business. Based on these business units, the Group formulates comprehensive domestic and overseas strategies and carries out business activities.

Accordingly, the Group has made these three segments—Domestic Steel Business, Overseas Steel Business and Material Recycling Business —its reporting segments.

The Domestic Steel Business is involved in the production, sale and transport of steel products primarily for domestic civil engineering and construction. The Overseas Steel Business is involved in the production, sale and transport of steel products primarily for overseas civil engineering and construction. The Material Recycling Business is involved in the intermediate and final processing of medical waste and industrial waste and gravel recycling.

(b) Calculation methods for net sales, profit or loss, assets and amounts for other items for each reporting segment

The accounting methods used for the reporting business segments are the same as those in “Significant Accounting Policies.” Reporting segment income is operating income. Intersegment transactions and transfers are based on market prices, etc.

(c) Net sales, profit or loss, assets and amounts for other items for each reporting segment

Segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2016 is outlined as follows:

Millions of yen

Year ended March 31, 2017	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 92,525	¥ 46,648	¥ 6,504	¥ 145,677	¥ 314	¥ –	¥ 145,991
Intersegment sales and transfers	176	–	1,265	1,441	–	(1,441)	–
Total	92,701	46,648	7,769	147,118	314	(1,441)	145,991
Segment income	¥ 7,317	¥ 1,031	¥ 1,006	¥ 9,354	¥ (10)	¥ (1,373)	¥ 7,971
Segment assets	¥ 103,581	¥ 57,245	¥ 6,094	¥ 166,920	¥ 2,672	¥ 44,749	¥ 214,341
Other							
Depreciation and amortization	3,367	2,303	216	5,886	13	62	5,961
Increase in property, plant, equipment and intangible assets	5,514	1,279	261	7,054	1	207	7,262

Thousands of U.S. dollars

Year ended March 31, 2017	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	$ 824,791	$ 415,832	$ 57,978	$ 1,298,601	$ 2,798	$ –	$ 1,301,399
Intersegment sales and transfers	1,569	–	11,277	12,846	–	(12,846)	–
Total	826,360	415,832	69,255	1,311,447	2,798	(12,846)	1,301,399
Segment income	$ 65,226	$ 9,191	$ 8,968	$ 83,385	$ (90)	$ (12,240)	$ 71,055
Segment assets	$ 923,346	$ 510,296	$ 54,323	$ 1,487,965	$ 23,820	$ 398,904	$ 1,910,689
Other							
Depreciation and amortization	30,014	20,530	1,925	52,469	116	553	53,138
Increase in property, plant, equipment and intangible assets	49,153	11,401	2,327	62,881	9	1,845	64,735

(Note)

1 Others represent the businesses which are not included in any of the reporting segments and mainly consist of civil engineering materials sales business and insurance agent business.

2 Intersegment eliminations of ¥(138) million ($(1,230) thousand) and corporate expenses of ¥(1,234) million ($(11,000) thousand) not allocated to the reporting segments are included in the ¥(1,373) million ($(12,240) thousand) adjustment for "Segment income (operating income)." Corporate expenses are related mainly to the general affairs department and other management departments of the submitting company's head office that is not attributable to a reporting segment.

3 The adjustment amount of segment assets was ¥44,749 million ($398,904 thousand), related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.

4 The adjustment amount of depreciation and amortization was ¥62 million ($553 thousand) and related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.

5 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥207 million ($1,845 thousand) and related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.

6 Segment income was adjusted against operating income of the consolidated statement of operations.

Millions of yen

Year ended March 31, 2016	Reporting segment				Others	Eliminations and adjustments	Consolidated
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net Sales							
Sales to external customers	¥ 107,642	¥ 46,035	¥ 6,956	¥ 160,633	¥ 319	¥ –	¥ 160,952
Intersegment sales and transfers	2,221	–	1,821	4,042	–	(4,042)	–
Total	109,863	46,035	8,777	164,675	319	(4,042)	160,952
Segment income	¥ 12,507	¥ 744	¥ 1,389	¥ 14,640	¥ 20	¥ (868)	¥ 13,792
Segment assets	¥ 97,414	¥ 47,951	¥ 6,363	¥ 151,728	¥ 3,428	¥ 45,280	¥ 200,436
Other							
Depreciation and amortization	3,289	1,426	224	4,939	15	72	5,026
Impairment loss on fixed assets	–	1,392	–	1,392	–	9	1,401
Increase in property, plant, equipment and intangible assets	3,421	6,177	410	10,008	9	86	10,103

(Note) 1 Others represent the businesses which are not included in any of the reporting segments and mainly consist of civil engineering materials sales business and insurance agent business.
2 Intersegment eliminations of ¥183 million and corporate expenses of ¥(1,052) million not allocated to the reporting segments are included in the ¥(868) million adjustment for "Segment income (operating income)." Corporate expenses are related mainly to the general affairs department and other management departments of the submitting company's head office that is not attributable to a reporting segment.
3 The adjustment amount of segment assets was ¥45,280 million, related mainly to the Company's surplus funds (cash and time deposits and marketable securities) and long-term investments (investment securities) and belonged to the general control division in the head office of the Company.
4 The adjustment amount of depreciation and amortization was ¥72 million and related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
5 The adjustment amount of impairment loss on fixed assets was ¥9 million and related mainly to the corporate assets not allocated to reporting segments.
6 The adjustment amount of expenditure for addition to tangible and intangible assets was ¥86 million and related mainly to the general affairs department and other management departments of the submitting company's head office that are not attributable to a reporting segment.
7 Segment income was adjusted against operating income of the consolidated statement of income.

(d) Geographic areas

Information for the geographic areas for the years ended March 31, 2017 and 2016 are outlined as follows:

❶ Net sales

Year ended March 31, 2017 — Millions of yen

Japan	Overseas	Vietnam	Others	Total
¥ 96,881	**¥ 49,110**	**¥ 45,950**	**¥ 3,160**	**¥ 145,991**

Year ended March 31, 2017 — Thousands of U.S. dollars

Japan	Overseas	Vietnam	Others	Total
$ 863,621	**$ 437,778**	**$ 409,609**	**$ 28,169**	**$ 1,301,399**

Year ended March 31, 2016 — Millions of yen

Japan	Overseas	Vietnam	Others	Total
¥ 106,433	¥ 54,519	¥ 49,556	¥ 4,963	¥ 160,952

❷ Property, plant and equipment

Year ended March 31, 2017 — Millions of yen

Japan	Vietnam	America	Total
¥ 55,321	**¥ 22,288**	**¥ 3,765**	**¥ 81,374**

Year ended March 31, 2017 — Thousands of U.S. dollars

Japan	Vietnam	America	Total
$ 493,145	**$ 198,681**	**$ 33,562**	**$ 725,388**

Year ended March 31, 2016 — Millions of yen

Japan	Vietnam	Total
¥ 55,172	¥ 24,484	¥ 79,656

❸ Principal customers

Year ended March 31, 2017 — Millions of yen

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	**¥ 18,424**	**Domestic steel business**
MM & KENZAI Corporation	**¥ 15,942**	**Domestic steel business**

Year ended March 31, 2017 — Thousands of U.S. dollars

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	**$ 164,236**	**Domestic steel business**
MM & KENZAI Corporation	**$ 142,111**	**Domestic steel business**

Year ended March 31, 2016 — Millions of yen

Counterparty	Sales	Related segment
Hanwa Co., Ltd.	¥ 19,023	Domestic steel business
MM & KENZAI Corporation	¥ 18,577	Domestic steel business

❹ Segment unamortized goodwill

Year ended March 31, 2017 — Millions of yen

Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Others	Eliminations and adjustments	Total
–	**¥ 375**	**–**	**–**	**–**	**¥ 375**

Year ended March 31, 2017 — Thousands of U.S. dollars

Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Others	Eliminations and adjustments	Total
–	**$ 3,343**	**–**	**–**	**–**	**$ 3,343**

23 SUBSEQUENT EVENTS

Dividend distribution of surplus
On April 28, 2017, the Company's Board of Directors resolved a dividend distribution as follows:

Millions of yen	Thousands of U.S. dollars
¥ 869	**$7,746**

(Note) Total amount of dividends included ¥2 million ($18 thousand) for the treasury stock owned by the ESOP Trust.
Cash dividends: ¥20 ($0.18) per share.

Independent Auditor's Report

To the Board of Directors of KYOEI STEEL, LTD.:

We have audited the accompanying consolidated financial statements of KYOEI STEEL, LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KYOEI STEEL, LTD. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 20, 2017
Osaka, Japan

Investor Information

As of March 31, 2017

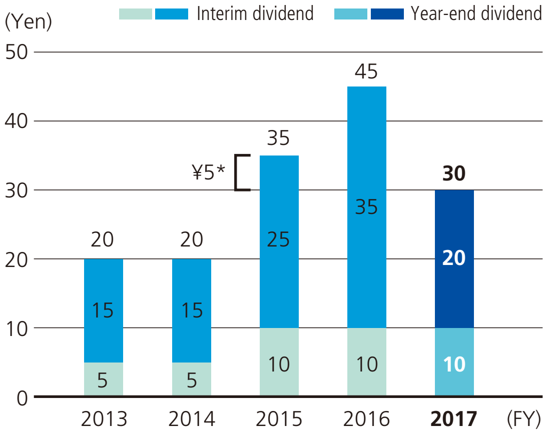
Date of Establishment	August 21, 1947
Common Stock	¥18,516 million
Number of Shares	Authorized: 150,300,000 Issued: 44,898,730
Number of Shareholders	2,854
Number of Employees	2,341 (Consolidated: regular employees)
Stock Listing	Tokyo
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233 Japan

Major Shareholders (As of March 31, 2017)

Name	Number of shares owned (thousands)	Voting rights ratio
Nippon Steel & Sumitomo Metal Corporation	**11,593**	**26.7**
Hideichiro Takashima	**4,347**	**10.0**
Japan Trustee Services Bank, Ltd. (Air Water Inc. retirement benefit trust account)	**2,600**	**6.0**
Akihiko Takashima	**2,233**	**5.1**
Mitsui & Co., Ltd.	**1,470**	**3.4**
Godo Steel, Ltd.	**1,347**	**3.1**
The Master Trust Bank of Japan, Ltd. (Trust Account)	**1,090**	**2.5**
Japan Trustee Services Bank, Ltd. (Trust Account)	**1,074**	**2.5**
STATE STREET BANK AND TRUST COMPANY	**978**	**2.2**
Japan Trustee Services Bank, Ltd. (Air Water Safety Service Inc. retirement benefit trust account)	**692**	**1.6**

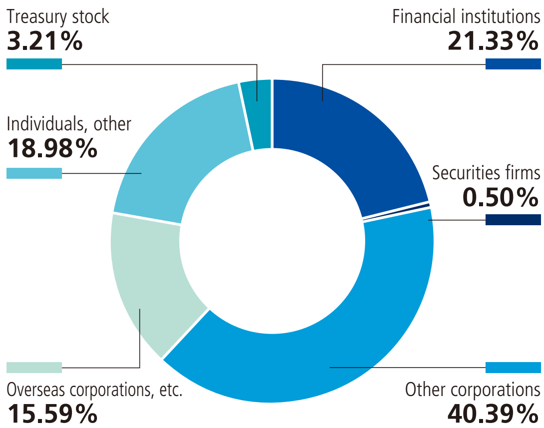
Note: Calculations of share ownership ratios exclude treasury stock (1,439,586 shares). This treasury stock does not include 112,200 shares in the Company held by the Company's employee stock ownership plan.

Dividends per Share

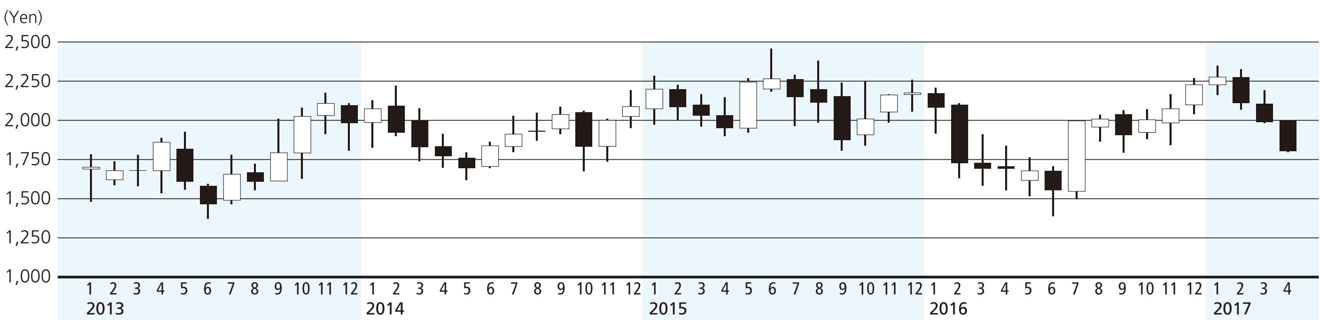


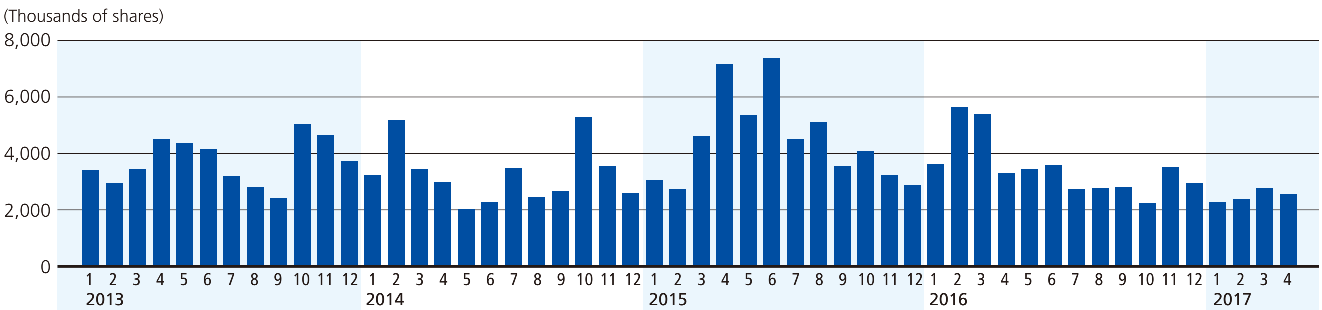
* Including a bonus dividend of ¥5 per share

Shareholders by Type



Stock Price and Trading Volume





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